Company Name:- Hercules (Eclipse 2006-4) plc

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

Date:- 20 November 2020

HERCULES (ECLIPSE 2006-4) PLC

a public limited company incorporated in England and Wales with company registration number 5895593

(the “**Issuer**”)

NOTICE TO THE HOLDERS OF

£666,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN (Reg S Notes) XS0276410080

£43,950,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN (Reg S Notes) XS0276410833

£25,000,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN (Reg S Notes) XS0276412375

£51,000,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN (Reg S Notes) XS0276413183

£29,000,000 Class E Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN (Reg S Notes) XS0276413340

(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 5 December 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 17 August 2020 (the "**17 August Announcement**).

In the 17 August 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 seventeen 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 6 October 2020 (the "**6 October Announcement**").

In the 6 October Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a closed care home for a gross consideration of £2.3m.

Update on the Strategy for the Portfolio

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

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

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

Subsequently, six of these offers were withdrawn, two homes have been sold, with the remainder in various states of progress, as the buyers have had to focus on their existing care homes, in light of the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

Subsequent to the 6 October Announcement, contracts have been exchanged for the sale of a further two trading care home for a total gross sale consideration of £3.025m.

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) are currently permitted and hence, the anticipated timeframes for progressing the current offers are expected to be elongated as a consequence.

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

UK-mainland portfolio

Closed properties

Currently, there are 4 closed properties remaining of which:

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

b) 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, and a response has now been received from the planners. A data-room will now be established for use in the future sale of the property and also a sales agent selected to undertake the marketing for sale of the site.

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

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

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Closed	England	4	0	0%	0	0	0

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 eight care homes being marketed for sale or are in legal documentation following a marketing process.

Of these eight, all are currently in the legal process.

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

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	35	6	17%	6	6	3
"	Scotland	6	0	0%	0	0	0
"	Wales	2	2	100%	2	2	0
"	NI	7	0	0%	0	0	0
	Total	50	8	16%	8	8	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 between 12 - 24 weeks to conclude.

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

Northern Ireland portfolio

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

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

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

A process for selecting a sales agent to undertake the alternative strategy is currently being pursued.

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

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

Larchwood portfolio summary

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

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Closed	England	4	0	0%	0	0	0
NB – the 4 remaining closed homes in England (3 of which are situated on the same site) are currently the subject of "pre-app" planning proposals, to maximise recoveries from a future sale of them, as they provide residential and commercial redevelopment opportunities.							
Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	35	6	17%	6	6	3
"	Scotland	6	0	0%	0	0	0
"	Wales	2	2	100%	2	2	0
"	NI	7	0	0%	0	0	0
	Total	50	8	16%	8	8	3
	Total	54	8	15%	8	8	3

Trading Update

Similar to the 17 August 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 17 August 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 October 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	331,811.12	331,811.22
(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	121,535,253.38	121,867,064.50
(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	121,867,064.50

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:

Hercules (ECLIPSE 2006-4) 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: 20 November 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 30 September 2020

Introduction

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

As detailed previously, two homes closed during the quarter to 31 December 2019, Fleetwood Lodge and Lauriston House.

In addition, Ladyfield House (29 January 2020), Harmony House (20 April 2020), King's Court (22 April 2020), Chaplin Lodge and Memory House (both 17 July 2020) have been sold on a going concern basis.

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

Therefore, unless otherwise stated, the figures in this update only include the results for the 43 homes ('the Homes') that were open for the full year to 30 September 2020.

The closure of Willow Brook commenced in September 2020 and will be completed by the end of December 2020. However, as this home was trading for most of the year to September 2020 outside of the closure process, we have included the results from this home in the figures presented.

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 September 2020

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

	LFL Adjusted 3 months to 30-Sep-19 £'m	**LFL Adjusted** 3 months to 30-Jun-20 £'m	**LFL Adjusted** 3 months to 30-Sep-20 £'m	Variance to Like For Like quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	16.60	16.67	16.70	0.10	0.03
Staff Costs	(9.82)	(11.25)	(10.45)	(0.63)	0.80
Operating Costs	(0.89)	(1.38)	(0.92)	(0.03)	0.46
Indirect Costs	(1.91)	(1.82)	(2.03)	(0.12)	(0.21)
EBITDARM	**3.98**	**2.22**	**3.30**	**(0.68)**	**1.08**
KPIs					
Usable Beds	2,056	2,029	2,029	(27)	-
Average occupancy	1,746	1,732	1,653	(93)	(79)
Average occupancy (%)	84.9%	85.4%	81.5%	(3.4%)	(3.9%)
Spot occupancy at period-end	1,746	1,703	1,654	(92)	(49)
Spot occupancy at period-end (%)	84.9%	83.9%	81.5%	(3.4%)	(2.4%)
Average weekly fee	723	740	769	46	29
CAPEX	1.32	0.39	1.09	(0.23)	0.70
Staff costs as a % of Fee Income	59.2%	67.5%	62.6%	(3.4%)	4.9%

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the

Management Fee, the Incentive Fee (if applicable)
Other Income represents all Covid19 funding assistance received by the Group
The movements in occupancy and staff costs percentage are expressed on a percentage point basis. The staff costs percentage is based on the underlying figures before rounding for the above table

Note that the quarter to September was the last quarter of the financial year in both 2019 and 2020. In both of these quarters, adjustments were processed for year-end accounting purposes, an element of which related to prior quarters.

In the quarter to September 2020, the principal year-end adjustments made were as follows:

- The accrual made for staff costs was reduced by c.£330,000
- The accrual made for staff holiday pay was reduced by c.£234,000

Before accounting for the above entries, the base EBITDARM from the Homes in the quarter to September 2020 was c.£2.74 million.

Whilst State funding of £3.05 million had been accounted for by the Group in respect of Covid-19 financial assistance up to 30 September 2020, this funding has been 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.

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

Covid-19

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

Following the updates provided in the previous two trading statements, the numbers of staff and clients with suspected or confirmed Covid-19 cases fell consistently during July and August. At the lowest point there were 49 clients in isolation of which 31 were as a direct consequence of our admission isolation policy. Staff isolation was circa 0.6% of the workforce.

At the beginning of September, positive cases in both the client and employee populations began to increase albeit it should be noted that there appeared to be a direct link between the increased availability of testing and the increase in the number of positive tests.

However, during September, a slow but steady rise in non-symptomatic infections was recorded and this has remained the case during the period post quarter-end.

Stocks of PPE have been maintained throughout the period. The PPE portal through which homes in England can access free PPE supplies was opened. The availability of supplies has varied across the country with some homes getting more stock than required where others have had less success. We have continued to monitor stock levels very closely and have adopted a ‘portfolio’ approach to distribution with emergency top ups from our head office central store being provided as and when required. At this point, we do not envisage that further significant spend on PPE will be required before mid-January 2021.

The VAT exemption on PPE came to an end at the 30 September.

During the summer months most of the homes were open to relatives to visit their loved ones in the gardens. This was well received and, in the main, visitors complied with all the requirements of social distancing and the wearing of PPE. Every home has a dynamic risk assessment in place for visiting and for each individual client.

As we move forward into the winter months, work to facilitate visits in visiting pods and designated rooms within the homes is being undertaken. Most of this work is being funded from Round Two of the Government's Infection Control Fund.

Occupancy

On a LFL basis for the 43 homes in the portfolio as at 30 September 2020, occupancy decreased by 49 clients in the quarter to September 2020.

Occupancy decreased in the first few days of July by 53 clients as a contract bed agreement with a Local Authority (LA) covering six homes was terminated by the LA in respect of the unoccupied beds at that point. Following this reduction, occupancy remained broadly flat for the remainder of the period ending the quarter at 1,653 clients.

Whilst the level of admissions at the homes remained lower than would have been expected for the quarter, it was sufficient to offset the number of deaths and discharges at the homes.

Post quarter-end, occupancy had reduced by 13 clients by mid-November (excluding the reduction at Willow Brook which is in the course of closure).

LAs and CCG's continue to explore with us the possibility of commissioning some capacity as part of the national "Designated Settings" Scheme. There are several significant obstacles to the implementation of this project not least of which is how insurance for communicable disease is provided. Whilst it currently appears unlikely that we would implement this project we are developing our expertise in this area, so that we are in the forefront of commissioners' minds should the macro issues be resolved.

All LAs, where we have capacity, have been approached with an offer of Winter Pressures Beds and negotiations are ongoing in areas such as Essex, Huddersfield, and Somerset.

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

Average Weekly Fees

Average weekly fees for the quarter to 30 September 2020 were £769 compared to the previous quarter average of £740, an increase of £29 per week (3.9%).

Note that an element of Covid19 funding from local authorities has come by way of supporting revenue by way of increased rates or paying for vacant beds. As such, the receipt of this funding will impact on the average weekly fee rate and thus make comparisons with prior periods difficult.

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

- English and Welsh LA's – these fee increases will not be formally agreed (or received) for several months following the commencement of the new financial year. To date, 36 out of 67 LA's have communicated their rate increase; these rates apply to c.77% of Larchwood's LA clients. The average increase to date has been c.4.23% (Nursing 4.32% and Residential 4.13%) against the budget of 2.5%. For this year, analysis of these increases may be more difficult as a number of LAs appear to be merging the normal annual increases with the Covid-19 support that they are offering.

  Note that for any increases not yet agreed, no provision will have been made in the accounts for the year to 30 September 2020 for the additional amounts due

- Scottish LA's – One rate covers the whole of Scotland and is agreed centrally. In this regard, members of the providers group (Scottish Care) voted to accept an increase in the annual nursing fee of 3.51% and residential fee of 3.54%.

- Self-funder fee increases this year have averaged 6% (2019: 7.5%), the number of clients paying top-ups remained broadly constant (132 in the quarter to June 2020 compared to 131 in the quarter to 30 September 2020) whilst in the same period there was a decrease in the number of self-funders from 426 to 388.

Costs

The single largest cost for the Homes is payroll. Overall staff costs decreased c.7.1% quarter on quarter in absolute terms. However, it should be noted that as September is the financial year-end for the Group, several year-end adjustments were made to the accounts which are reflected in the figures disclosed.

As a result of this, the quarter to 30 September 2020 included positive adjustments for items such as over-accrued holiday pay and staff costs. Before the inclusion of these year-end adjustments, staff costs decreased c.2.0% in absolute terms quarter on quarter.

Agency hours used increased from an average of 3,550 per week in the June 2020 quarter to 3,699 in the September 2020 quarter, an increase of c.4.2%. This increase was driven by the requirement to cover a higher number of staff holidays than in the previous quarter.

Recruitment continues to be challenging. On average across the staff groups, 1 in 4 applications proceed to an offer of employment. We continue to use job sites, message boards, our website, and social media sites to advertise vacancies.

The extension of the Furlough scheme is likely to continue to have a negative effect on the number of people wishing to move employment currently. As part of our post Covid-19 work we are involved in a national government project to increase the profile of a career in Social Care.

Operating Costs decreased materially quarter on quarter from c.£8.75 per resident day in the quarter to June 2020 to c.£6.06 per resident day in the quarter to September 2020. Significant purchases of PPE were made in the quarter to June 2020 which were expensed to the profit and loss account at the time of purchase. Given the significant level of purchases in the quarter to June 2020, lower levels of purchases were required in the following quarter.

Indirect Costs increased c.£210,000 quarter on quarter driven principally by an increase in the level of repairs and maintenance costs for the quarter. Given the loosening of the lockdown in the quarter to September 2020, more access was allowed to the homes compared to the previous period which allowed for more maintenance works to be carried out.

Compliance

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

England:

Grade	5-Aug-19	31-Oct-19	31-Jan-20	30-Apr-20	31-Jul-20	31-Oct-20
Outstanding	1	1	1	1	1	1
Good	32	34	32	29	26	26
Requires Improvement	9	7	6	7	6	6
Inadequate	-	-	-	-	2	2
Total	42	42	39	37	35	35
Compliant %	78.6%	83.3%	84.6%	81.1%	77.1%	77.1%
Note: Homes are removed from the above analysis as and when they are closed or sold.						

Scotland:

Average Grade	5-Aug-19	31-Oct-19	31-Jan-20	30-Apr-20	31-Jul-20	31-Oct-20
6	-	-	-	-	-	-
5	1	1	1	1	1	1
4	3	4	4	4	4	4
3	2	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	5-Aug-19	31-Oct-19	31-Jan-20	30-Apr-20	31-Jul-20	31-Oct-20
Compliant	2	2	1	1	1	1
Non-compliant	-	-	1	1	1	1
Note: Welsh homes are not given grades, it is only noted if they are compliant or not.						

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

There has been no change in any ratings since our previous update.

In terms of the two homes with Inadequate ratings, Rose Martha Court and Stambridge Meadows, the turnaround plans at these homes have been implemented. Both of these homes have been inspected by the CQC during November and, once the reports are filed, the new ratings are expected to be an improvement on the current ratings.

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. However, five homes have had focussed visits from the Care Inspectorate to review the quality of the home's care and support during the COVID-19 pandemic.

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

Capex

During the quarter to September 2020, total Capex of c.£1.09 million was invested into the portfolio. For the twelve months to 30 September 2020, Capex on the 43 homes totalled £3.95 million.

Based upon the average number of useable beds in the year (2,028) this equates to a run-rate of £1,950 per useable bed per annum (above the norms for the industry).

The Capex spend in the September quarter was materially higher than in the previous quarter as access to the Homes became more available following the loosening of the lockdown restrictions. The level of Capex spend at the homes over the next couple of quarters will materially depend on the level of restrictions that are being imposed on care homes in light of the current and any future waves of Covid-19.

The Capex detailed above was in addition to the c.£1,030 per useable bed spent on planned and preventative maintenance and general repairs in the year to 30 September 2020.

Closed and Sold Homes

At the start of the quarter to 31 December 2019, the portfolio stood at 50 trading homes.

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

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

Therefore, as at 30 September 2020, the number of trading homes open was 43.

Willow Brook is being sold as a vacant home and is currently in the course of closure. As this home traded for most of the year to 30 September 2020, the results from the home have been included in the figures in this update (unless stated). It will be removed from our analysis in our update for the quarter to 31 December 2020.

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

The trading results and main KPI's for the twelve months to September 2020 for the 43 Homes open in the year to 30 September 2020 (compared to the year to June 2020) are summarised as follows:

	LFL Adjusted	**LFL Adjusted**	
	12 months to 30-Jun-20 £'m	12 months to 30-Sep-20 £'m	Variance £'m
Fee Income	65.86	65.96	0.10
Staff Costs	(42.34)	(42.97)	(0.63)
Operating Costs	(4.12)	(4.15)	(0.03)
Indirect Costs	(7.83)	(7.95)	(0.12)
EBITDARM	**11.57**	**10.89**	**(0.68)**
KPIs			
Usable Beds	2,035	2,028	(7)
Average occupancy	1,734	1,711	(23)
Average occupancy (%)	85.2%	84.4%	(0.8%)
Spot occupancy at period-end	1,703	1,654	(49)
Spot occupancy at period-end (%)	83.9%	81.5%	(2.4%)
Average weekly fee	728	737	9
CAPEX	4.18	3.95	(0.23)
Staff costs as a % of Fee Income	64.3%	65.1%	0.8%

As detailed above, State funding of £3.05 million had been accounted for by the Group in respect of Covid-19 financial assistance up to 30 September 2020. However, for the reasons previously stated, this funding has been excluded from the figures in the table above.

Two homes in the 43 home portfolio were loss making in the twelve months to September 2020; across these two facilities, the gross annual EBITDARM loss was c.£200,000.

Excluding these loss-making homes, the EBITDARM for the remaining 41 homes was c.£11.09 million (pre Covid-19 funding) for the twelve months to September 2020.

Of the annual EBITDARM to 30 September 2020, Willow Brook (which is in the course of closure) accounted for c.£40,000 of the total generated for the portfolio.

Overall Outlook

The arrival of the second-wave of Covid-19, especially given that we are at the start of the winter period, continues to challenge predictions in respect of occupancy and staffing across the whole sector. As we go into the winter months our expectation is that there will be a slight erosion in occupancy levels with the greater impact being in the areas of high transmission of the virus (the original Tier 3 areas).

The impact of the government 'designated beds' project is as yet unknown however management are exploring this opportunity with commissioners in relation to those services where this initiative can be safely accommodated.

The extension of financial assistance through to March 2021 will provide some welcome support to offset the additional costs arising as a result of dealing with the virus, including enabling safe visits to services by client's families in line with the guidance and best practice and supporting staff to maintain good infection control measures where required.

Staff vacancies continue in line with previous run-rates. As yet, there has been no positive impact in recruitment in this sector given the reported downturn experienced in other sectors. There is a reasonable belief however that, should pressure in other sectors, especially hospitality, continue into 2021, we could see a positive impact including in agency reduction.

Regulators have re-commenced inspections and are focussing on areas they believe to be high risk with particular emphasis on the areas assessing safety and leadership. At the time of this report, all inspection outcomes have been positive. It is not anticipated that services rated Requires Improvement or above will have a comprehensive inspection before the full regulatory process resumes.

Larchwood (Northern Ireland Portfolio)

Unaudited trading statement as at 30 September 2020

Introduction

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

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

As detailed in the update, 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 the home will re-open towards the start of the second quarter of 2021. Note that the results included in the table below for the quarter to September 2020 (together with the previous quarters) include the results of this home for the full quarter.

Summary Financial Performance – 3 months to September 2020

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

	3 mths to 30-Sep-19 £'m	3 mths to 30-Jun-20 £'m	3 mths to 30-Sep-20 £'m	Variance to LFL quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	3.38	3.62	3.60	0.22	(0.02)
Staff Costs	(2.31)	(2.35)	(2.38)	(0.07)	(0.03)
Operating Costs	(0.18)	(0.20)	(0.21)	(0.03)	(0.01)
Indirect Costs	(0.18)	(0.18)	(0.18)	-	-
EBITDARM	**0.71**	**0.89**	**0.83**	**0.12**	**(0.06)**
KPIs					
Usable Beds	319	323	323	4	-
Average Occupancy	307	304	307	-	3
Average Occupancy %	96.2%	94.1%	95.0%	(1.2%)	0.9%
Spot occupancy at quarter-end	307	305	307	-	2
Spot occupancy at quarter-end %	96.2%	94.4%	95.0%	(1.2%)	0.6%
Average weekly fee	£839	£916	£892	£53	(£24)
CAPEX (£'m)	0.30	0.04	0.08	(0.22)	0.04
Staff costs as a % of Fee Income	68.2%	65.1%	66.1%	2.1%	(1.0%)

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

Overall, EBITDARM for the quarter to 30 September 2020 represented an improvement of c.£120,000 (c.17.0%) on the same quarter in 2019 driven by the 6.3% increase in the average weekly fee which outstripped the increases in staff and other costs

EBITDARM generation for the quarter was a reduction of c.£60,000 (c.6.7%) on the quarter to 30 June 2020 driven principally by the receipt of COVID-19 grant monies from the Trusts (£115,000) in the previous quarter partly mitigated by higher occupancy levels in the quarter to September 2020.

Covid-19

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

Following the updates provided in the previous two trading statements, the second-wave of the Covid-19 virus has mostly affected the North West homes within the portfolio being Culmore Manor, Greenhaw Lodge and Melmount Manor. The community transmission rates for the Derry and Strabane Council areas were well documented in that they reached the highest in all of the UK during the end of September and beginning of October 2020.

Melmount Manor had an outbreak in mid-October which has now subsided. This resulted in a cohort of both the resident and staff population being affected. A small number of the other homes within the portfolio have been sporadically impacted by minimal outbreaks which are currently being closed out.

The directive issued by the Department of Health for testing residents every 28 days and staff every 7 days is continuing in all Homes. Unfortunately, post quarter-end, five client deaths have occurred across the full resident population of the Group.

The commitment and efforts shown from all the staff teams on the front line during this unprecedented time have been superb.

External visiting to the Homes has been continuing by appointment with the relevant home manager. Virtual visiting remains the preferred option as it provides the greatest protection for clients and staff while keeping footfall to a minimum. Sufficient stock levels of PPE stock, hand sanitiser and appropriate cleaning products continue to be held across the Group.

The Department of Health announced that further funding support of £27.3m will be made available to the care sector in Northern Ireland and will be allocated based on the resident population within each home. This income will mitigate the increased costs associated with ongoing testing within the Homes, overseeing safe visiting arrangements and increased management time.

Occupancy

Occupancy increased by 2 clients in the quarter to 30 September 2020 rising from 305 clients at 30 June 2020 to 307 clients at 30 September 2020.

Occupancy for the quarter as a whole averaged 307 clients, an increase of 3 clients on the previous quarter. Occupancy peaked during the quarter at 310 clients at the end of August.

Given the continuing Covid-19 circumstances, the average overall occupancy for the quarter of 95.0% represents a further excellent result for the Homes with all but one of the Homes being at occupancy levels in excess of 95% at the end of the quarter.

The remaining home, Kingsland, was impacted prior to the March 2020 lockdown by a number of palliative clients passing away in the preceding months. Following this, through the period to June 2020, the decision to limit admissions and protect the existing resident population meant that the lower occupancy level continued to decline.

It is noted that a high level of deaths in care homes situated close to Kingsland has meant that there is a disproportionate supply to demand ratio in the Bangor and North Down commissioning area.

The scheme implemented by the Trust for homes in the area whereby vacant beds up to an occupancy level of 80% are treated as being occupied by the Trust (as detailed in our previous update) is benefiting the Group from a financial perspective as certain of the vacant beds of Kingsland are still being funded by the Trust. However, the scheme is not assisting the home in building its physical occupancy as the Trust appear to be prioritising referrals into other homes with lower occupancy rates than Kingsland

Across the Homes, a decision was taken at the start of October to mitigate the risk during the second-wave of the Covid-19 infection by limiting the number of new admissions. Occupancy for the portfolio is currently 247 clients, a reduction of 60 on the September 2020 quarter-end position. However, note that this reduction includes the closure of Greenhaw Lodge which accounts for a reduction of 40 clients.

Demand for placements in the North West of the Province remains moderately high. Specialist placements in centres such as Glebe and Apple Blossom also show promise with both services developing waiting lists and being recognised as continued centres of excellence. Demand for general nursing and residential placements in other areas of the Province is low with indications that families are reluctant to place relatives into care establishments due to the virus.

The Trusts are continuing to offer the availability of direct payments for families for “Care at Home” packages to care for their loved ones at the family home and in some areas, this continues to be the preferred option. However, if this continues it will add excessive pressure to the community nursing teams which were already over-stretched prior to the pandemic.

In the quarter, the average ratings for the homes on the CareHome.co.uk website was 9.4.

Average Weekly Fees

The overall average weekly fee for the quarter was £892; whilst this was a reduction of £24 quarter on quarter, it should be noted that the prior quarter included the benefit of the Covid-19 aid monies (£115,000) received from the Trusts. Excluding this amount, the average weekly fee for the previous quarter was £886.

The average weekly fees for nursing clients was £949 for the quarter (previous quarter £948) whilst for residential clients the average week fee was £626 (previous quarter £624).

Fee increases were applied on 1 April 2020 as follows:

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

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

Costs

Staff costs increased c.£30,000 (1.3%) on the previous quarter and represented 66.1% of revenue for the quarter. However, note that the quarter to September has one more day than the previous quarter which means that staff costs were broadly unchanged on a like for like basis compared to the previous quarter.

As disclosed in the previous update, the National Living Wage increased on 1 April 2020 from £8.21 an hour to £8.72 an hour, an increase of c.6.2%. This directly affects c.65% of Larchwood’s workforce by number and increases the expectation of non-National Living Wage staff of receiving beyond inflation pay increases in order to maintain pay differentials between staff grades and groups.

During the quarter to September 2020, agency costs were c.£18,000 compared to the figure of £92,000 in the previous quarter and c.£170,000 in the comparative quarter in 2019.

The reduction in agency costs has been beneficial to the performance of the Group. Staff agreeing to work additional overtime has been a large factor in reducing footfall within the Homes and keeping Covid-19 outbreaks to a minimum.

In some of the Homes that have specialist client groups, recruitment has been challenging and block booking of agency shifts has been required. Recruitment remains ongoing for care assistants whilst the recruitment for nurses remains challenging, as it has been noticed that staff nurses seem reluctant to change from a home during the virus. The effect of Brexit will have a further detrimental effect in this regard as the deadline is now looming.

Now that the second surge of Covid-19 is present, it is anticipated that there will be a greater number of staff isolating over the winter period. It is hoped that the ongoing testing of staff will assist in this regard although it will also depend upon community transmission rates in the areas where the Homes are situated.

Operating Costs were c.£7.51 per resident day in the quarter to September 2019 (a 4.2% increase on the quarter to June 2020).

Overheads were in line with the level in the previous quarter.

Compliance and Quality

In the quarter to September 2020, three RQIA regulatory inspections were carried out across the Group.

An unannounced pharmacy, care and estates inspection took place in Greenhaw Lodge at the start of September. The pharmacy inspector evidenced positive improvement in the management of medication administration and record keeping. However, the inspectors for care and estates raised concerns and, as a result, four Failure to Comply Notices were issued to the home.

Additionally, two Notices of Proposal were issued in respect of the fitness of the Premises. A major underground water leak arising from the original construction of the home had led to concerns about the hot water supply within the building which was initially highlighted to the Regulator in March. Insurers were subsequently notified and loss adjustors had already attended site to assess the water damage prior to the unannounced inspections.

These Notices of Proposal placed conditions on the registration of the home requiring it to cease admissions and submit regular reports to the RQIA in respect of monitoring visits. Water sampling took place as a risk control measure and the results indicated that there was contamination of the water systems.

Following these results the RQIA sought and issued Urgent Proceedings which placed a further condition on the home that all clients be relocated from the home to other suitable placements whilst the necessary estates works on the building were completed. This relocation of clients was completed by 2 November 2020. The requirements of these proceedings will remain in place until the RQIA conduct a re-inspection of the fully refurbished premises prior to the re-admission of the clients.

In terms of the remaining two inspections, an unannounced care inspection took place in Kingsland in August where previously assessed areas for improvement were re-assessed as having been met during the course of a positive inspection.

An announced remote inspection of Apple Blossom Lodge took place at the end of September and the home was praised for its work with the clients, robust governance arrangements and feedback from clients and staff. The home received zero Areas for Improvement as a result of this inspection, which was an excellent outcome.

Following the quarter-end, an unannounced inspection occurred at Melmount Manor following which Four Failure to Comply Notices were issued to the home. The Management Team have met with the Regulator to discuss these issues and are implementing an action plan to address the issues identified.

Greenhaw Lodge Capex

Following the RQIA inspection at Greenhaw Lodge detailed above, we have worked with the Western Trust and the RQIA to arrange for the clients at the home to be transferred to alternative facilities whilst the remedial works to the home are carried out.

The process of transferring the clients commenced in mid-October and was completed in early November. As the occupancy of the two other Larchwood homes in the Derry area was in excess of 95%, the majority of clients have transferred to homes run by other operators. It is the intention that these clients will transfer back to the home once the remedial works are completed.

The issue at the 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 are leaking bringing significant water damage throughout the home. As at Melmount, these pipes have to be decommissioned with new plumbing being laid in the roof space which is then connected to all rooms.

The Phase One works, being the decommissioning of the existing pipes and the re-plumbing of the home, commenced in September and this work has now been broadly competed. It is anticipated that Phase Two of the works (the drying of the home) will commence in the next seven to fourteen days which will then be followed by Phase Three being the repairs and make good of the home.

Whilst the timetable for the work is still being finalised, we anticipate that the works will be completed during the early part of the second quarter of 2021.

The cost of the Phase One works is not covered by insurance and will have to be met from Group funds. We currently anticipate that the cost of these works (including irrecoverable VAT) will be c.£200,000 which will principally be incurred in the final quarter of 2020.

It is expected that the majority of costs in respect of the Phase Two and Phase Three works will be covered by insurance. A claim has been submitted and we are awaiting confirmation that this has been approved before proceeding further with the works.

In addition to a claim under the property insurance, an initial claim has been made under the business interruption insurance and we await acceptance of this claim and a first on-account payment.

Other Capex

In the quarter to September 2020, c.£80,000 was spent on Capex; this excludes any Capex incurred on Greenhaw Lodge as a result of the remedial works detailed above.

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.£900 has been spent on average per effective bed across the Homes.

Summary Financial Performance – 12 months to September 2020

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

	12 mths to 30-Jun-20 £'m	12 mths to 30-Sep-20 £'m	Variance £'m
Fee Income	13.72	13.94	0.22
Staff Costs	(9.32)	(9.39)	(0.07)
Operating Costs	(0.74)	(0.77)	(0.03)
Indirect Costs	(0.80)	(0.80)	-
EBITDARM	**2.86**	**2.98**	**0.12**
KPIs			
Usable Beds	322	323	1
Average Occupancy	306	306	-
Average Occupancy %	95.0%	94.7%	(0.3%)
Spot occupancy at year-end	305	307	2
Spot occupancy at year-end %	94.7%	95.0%	0.3%
Average weekly fee	£859	£873	£14
CAPEX (£'m)	0.52	0.30	(0.22)
Staff costs as a % of revenue	67.8%	67.3%	0.5%

The EBITDARM generation in the twelve months to September 2020 represents 21.4% of turnover (an increase of 0.5 percentage points when compared to the twelve months to June 2020). On a home-by-home basis, EBITDARM generation ranged from 11.4% to 35.3% in the twelve months to September 2020.

Overall Outlook

It will take a while for the Social Care Sector to recover from the Covid-19 pandemic and to address the lack of public confidence in care homes that has arisen following the press and media attention during 2020. This will have a knock-on effect in terms of occupancy levels for the short to medium term, despite the Group having performed well to date. A long overdue overhaul of the entire Social Care System, which has been delayed since 2010, is urgently needed to provide confidence in the sector moving forward.

Scrutiny from the Regulator will become more intense as questions are being asked of the sector about how the spread of the virus occurred. In addition, the restructuring of the Regulatory Body, the RQIA, following the resignation of all its board members in June 2020 appears to have brought a tighter focus on the compliance standards of homes. Consequently, the Group's clinical team has been strengthened by providing additional regional support to the home managers for ongoing governance and compliance.

The increased requirements for ongoing Covid-19 testing throughout the Homes places a significant burden on the staff teams and is time taken away from normal nursing duties on the floor. There is also additional management time for oversight of the process, ensuring that the testing, recording of data and any guidelines following positive results are actioned appropriately.

The Government's intention to increase the National Living Wage to £10.50 per hour by 2024 will increase staff costs by 5% per annum from now to 2024. This directly affects 65% of the workforce across the Group. Furthermore, as nurse recruitment is becoming more challenging, it is anticipated that following Brexit, the Group will need to apply for a Tier-2 Licence in order to recruit nurses from outside of the UK. There will be associated costs incurred and potentially further delays in filling vacancies due to the documentation process.

Increased indirect costs are anticipated moving forward, as additional cleaning costs plus certain product specifications have now been stipulated by the Health Trusts to maintain high standards of infection control and to prevent future spread of the virus. These additional costs will be mitigated to some extent by the further Covid-19 aid funding that has recently been announced.

Industry experts had previously, correctly, forecast the second wave of Covid-19 around October 2020 followed by a third wave in the first quarter of 2021. Given this, the recent news of a possible vaccine being available in advance of then would be very welcome for all parties in the care sector.