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

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

Date:- 14 November 2022

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 2022 (the "**17 August Announcement"**).

In the 17 August Announcement, the Special Servicer affirmed to Noteholders that, among other things, that sixteen trading care homes and three closed 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 28 September 2022 (the "**28 September Announcement**").

In the 28 September 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 £1,205,000.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 12 October 2022 (the "**12 October Announcement**").

In the 12 October 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 £2,225,000.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 27 October 2022 (the "**27 October Announcement**").

In the 27 October 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 £1,425,000.

Update on the Strategy for the Portfolio

To date, since the launch of the piecemeal disposal strategy for the portfolio, twenty-two properties marketed as trading care homes have now been sold.

In addition, fourteen properties marketed as closed care homes have now been sold.

Currently, six trading care homes and seven closed care homes are being marketed for sale.

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 Coronavirus 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 during 2020/21, resulted in any non-essential visits being prohibited.

This in turn meant that no visits by buyers' advisors (e.g. valuers) were permitted and hence, the anticipated timeframes for progressing the sales were elongated as a consequence.

As the restrictions have eased, this has enabled the Operators to permit more widespread, third-party access to the properties and this easing supports the continued intention to market further care homes for sale in the coming months.

UK-mainland portfolio

Closed properties

Currently, there are seven closed properties remaining namely:

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

b) a closed care home located in Droitwich that was deemed uneconomic to continue operating and has potential "alternative use" opportunities that could provide enhanced recoveries in a future sale process. Following the receipt of the "pre-app" response from the planners on the site, a data-room has been established for use in the sale of the property and a sales agent has been engaged to undertake the marketing for sale of the site.

c) a closed care home located in Huddersfield that was deemed uneconomic to continue operating and which having been marketed for sale, is currently under offer and in the legal process.

d) a further closed care home located in Huddersfield that was deemed uneconomic to continue operating and which having been marketed for sale, is currently under offer and in the legal process.

e) a closed care home located near Glasgow that was deemed uneconomic to continue operating and which having been marketed for sale, is currently under offer and in the legal process.

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	6	6	100%	2	2	0
"	Scotland	1	1	100%	1	1	0
	Total	7	7	100%	3	3	0

Once the marketing processes have been concluded and the sale of the 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 five care homes that having been marketed for sale, are now in legal documentation.

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

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	20	6	30%	5	5	1
“	Scotland	4	0	0%	0	0	0
“	NI	7	0	0%	0	0	0
	Total	31	6	19%	5	5	1

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

For those trading homes that are in the course of legal documentation, approval will be required from the relevant regulator for the proposed change of registration to the proposed new owner, with the latter taking up to 26 weeks to conclude, with prolonged re-registration periods experienced on the Scotland portfolio.

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

Going forward, the Special Servicer in conjunction with the Asset Manager and the Operator, will continue to select further batches of care homes to be assessed for possible disposal and thereafter placed with a sales agent for marketing.

England portfolio

In light of the progress made to date with the existing marketing processes, the Special Servicer discussed with the Asset Manager and the Operator, the possibility of commencing the marketing of a further batch of care homes.

Following this review, six trading care homes located in England have been selected for disposal and a sales agent has been engaged to undertake the marketing for sale of the homes, which is likely to commence in Q1 2023.

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, following the conclusion of the marketing process, the primary bidders completed visits to the care homes, to enable them to refine and ultimately finalise their bids.

Following receipt of best & final bids, a preferred bidder (which is an existing owner and operator of care homes in the province) was selected to proceed to the second phase of due diligence, toward eventually completing the acquisition of the portfolio.

Whilst the preferred bidder commenced its due diligence, the funder supporting the acquisition withdrew from the transaction, for reasons entirely outside of the control of the preferred bidder, the Special Servicer or the Borrower and unconnected to the portfolio itself.

Subsequently, the sales agent pursued some interest that had previously been expressed in the portfolio, however this has not come to fruition.

Notwithstanding the absence of interest, the Northern Ireland portfolio continues to operate at consistently high levels of occupancy and EBITDARM generation, as evidenced by the most recent quarterly trading update herein.

Upon review, the Special Servicer and Asset Manager have concluded that the portfolio will be put up for sale in early 2023.

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	6	6	100%	2	2	0
“	Scotland	1	1	100%	1	1	0
		7	7	100%	3	3	0
Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	20	6	30%	5	5	1
“	Scotland	4	0	0%	0	0	0
“	NI	7	0	0%	0	0	0
	Total	31	6	19%	5	5	1
	Total	38	13	34%	8	8	1

Trading Update

Similar to the 17 August Announcement, the Special Servicer requested of the Asset Manager and the Operators (HealthCare 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 18 October 2022 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	276,333.05	276,333.05
(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	101,214,834.78	101,491,167.83
(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	101,491,167.83

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

Asset Management Fee – monthly fee due to the Asset Manager

Agent – The Royal Bank of Scotland PLC

Security Trustee – The Royal Bank of Scotland PLC

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

Hedging Advance Lender – The Royal Bank of Scotland

LPI Hedging Advance Lender – The Royal Bank of Scotland

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

FURTHER UPDATES

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

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Date: 14 November 2022

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 2022

Introduction

Note that this trading statement should be read in conjunction with the previous trading updates provided in the Notices to Noteholders, with the most recent being dated 17th August 2022.

In addition to the seven homes sold as going concerns during the 12 months to 31 December 2021, no closures or sales took place in the quarter to March 2022, however a further three homes closed or were sold in the quarter to June 2022 these being Alwoodleigh (closed May 2022), Swan House (sold May 2022) and Wordsworth House (sold June 2022). In the quarter to September 2022 a further three services were closed/sold these being Broomfield (closed July 2022), Abbey Place (sold July 2022) and Hope House (sold September).

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

Therefore, unless otherwise stated, the figures in this update only include the results for the 26 homes ('the Homes') that were trading, and not in the course of closure, as at 30 September 2022.

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 2022

The trading results and main KPI's for the three months to September 2022 are summarised as follows:

	LFL Adjusted 3 months to 30-Sept-21 £'m	**LFL Adjusted** 3 months to 30-Jun-22 £'m	**LFL Adjusted** 3 months to 30-Sept-22 £'m	Variance to Like For Like quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	10.76	11.97	12.44	1.68	0.47
Staff Costs	(7.56)	(7.94)	(8.09)	(0.53)	(0.15)
Operating Costs	(0.57)	(0.61)	(0.66)	(0.09)	(0.05)
Indirect Costs	(1.43)	(1.60)	(1.56)	(0.13)	0.04
EBITDARM	**1.20**	**1.82**	**2.13**	**0.93**	**0.31**
KPIs					
Usable Beds	1,263	1,263	1,263	-	-
Average occupancy	1,005	1,024	1,028	23	4
Average occupancy (%)	79.5%	81.1%	81.4%	1.9%	0.3%
Spot occupancy at period-end	1,020	1,023	1,024	4	1
Spot occupancy at period-end (%)	80.8%	81.0%	81.1%	0.3%	0.1%
Average weekly fee	815	890	920	105	30
CAPEX	0.56	0.74	0.74	0.18	0.00
Staff costs as a % of Fee Income	70.2%	66.3%	65.0%	(5.2%)	(1.3%)

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
The calculation of Average Weekly Fee throughout this update excludes non Covid-19 'Other Income' which is included in the Fee Income figures included in the table above

EBITDARM increased by c.£0.31 million (17%) quarter-on-quarter principally as a result of increases in average weekly fee rates.

Average weekly fee has increased by £30 (3.4%) and occupancy has also improved slightly quarter-on-quarter. Staffing costs have however risen by c.£150,000 (1.9%) as have direct costs and thus the positive impact at EBITDARM level is reduced.

Whilst State funding had been accounted for by the Group in respect of Covid-19 financial assistance in all the quarters presented, this funding has been excluded from the figures in the table above. The impact of Covid-19 has meant that meaningful comparisons with prior periods are almost impossible to draw.

The increases in staffing costs associated with pressure on pay, significant shortfalls in the available workforce nationally and the increasing costs of supplies and reducing compensatory support payments all add to the pressure on margins. In addition, an element of the funding received has been 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.

We have therefore taken a simplistic view and excluded Covid-19 financial assistance from the results and whilst this does not eradicate the distortion, it is seen as a practical way of allowing some comparisons to be made between quarters. However, we would urge caution in drawing any firm conclusions for the reasons set out above.

Note that the main source of Covid-19 financial assistance historically received by the Group, being grants from the Infection Control Fund received by the English homes, ceased from 1 April 2022. As such, there is little impact across the two quarters, this now being restricted to free PPE supplies, assistance with sick pay in Scotland and the recognition of some Covid monies carried over from prior periods and yet not recognised in the P&Ls.

Covid-19

Covid-19 continued to have an impact on the Homes during the quarter to 30 September 2022.

Cases overall have stabilised but with some localities having above average incidences. We are however seeing fewer homes closed to admissions and where this does occur the closure periods are shorter. This is in line with national and local strategies around the message of “learning to live with Covid 19”

On average, the number of days that each home was closed to admissions was less than half a day in July, no days in August and 1 day in September 2022. This trend has continued in this trading period.

The number of staff who have received the double vaccination is now falling as the legal requirement to be vaccinated is no longer in place. Management control of infection remains a high priority and the homes continue to perform well as judged by internal and external audit scores.

Pressure on the supply chain for all our suppliers and contractors continues, however the active management of our procurement arrangements has meant we have limited the direct impact of this on our homes. PPE supplies in Scotland are not free of charge as they are in England. All homes in Scotland saw PPE costs remaining high in this quarter.

From 1 April 2022, Covid-19 support ceased in England, although it remains in place until 30 December 2022 in Scotland. We are continuing to pay staff forced to self-isolate in line with our main competitors and will keep this position under monthly review.

Occupancy

On a LFL basis for the 26 homes in the portfolio as at 30 September 2022, average occupancy for the quarter increased by just 4 clients compared to the quarter to 30 June 2022.

Significant resource continues to be placed into marketing the services and, in particular the use of social media which is seen as a key element of marketing in the market sector that the Larchwood homes appeals to. As part of this, management has continued with the programme of producing professional videos for the services and publicising significant events at the homes. As a result, the traffic to the homes Facebook pages continues to grow. In September the number of people reached increased by 16% compared to June 2022 with posts reaching c.214,000 people.

The Carehome.co.uk score for the group remains strong at 9.3. Management is taking action to encourage homes to seek more reviews which will assist in improving the rating score.

Average Weekly Fees

Average weekly fees for the quarter to 30 September 2022 were £920 compared to the previous quarter average of £890, an increase of £30 per week (3.4%). This is reflective of the 11.5% FNC increase announced May 2022 (but not processed by LAs until June/July depending on the LA), late LA fee increases dating back to April 2022.

Fee increases for all clients generally occur on 1 April each year. The status of the increases for 2022 is as follows:

- English Local Authorities' (LAs) – these fee increases will not be formally agreed (or received) for several months following the commencement of the new financial year. To date, 13 out of 19 English LAs, which are considered a significant LA contract in place, have communicated their rate increase; these rates apply to c.60% of Larchwood's main LA clients.
- The average increase to date has been c.7.4% for nursing rates and c.6.9% for residential rates against the budget of 4.0% and 3.7% respectively.
- 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 5.38% and the residential fee of 5.6%.
- Self-funder fee increases averaged c.12%. The number of clients paying top-ups has decreased from 49 to 48 over the quarter to 30 September 2022, often where top-ups have been consolidated into new fee rates. In the same period the number of self-funders decreased from 348 clients to 323 clients.

Costs

Overall staff costs reduced as a percentage of fee income by c.1.3% quarter-on-quarter.

As indicated above, the Group continues to pay staff who are required to isolate for Covid-19 reasons. This policy will remain under review.

Agency usage in the quarter averaged c.6,400 hours per week, an increase of c.16.3% on the previous quarter (c.5,500 hours per week). We are unlikely to see a significant downturn in agency costs in the next quarter as pressure on staff vacancies remain. Home by home reviews of pay and terms and conditions are regularly benchmarked against competitors and revised if appropriate. Improvements in staff engagement and wellbeing are beginning to yield positive results with staff turnover reducing by 1.37% in this quarter.

Operating Costs increased by c.14.8% from the previous quarter, rising to c.£6.98 per client day. This was mainly driven by the inflationary pressures that are being experienced on food and other direct costs.

Compliance

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

England:

Grade	9-Aug-21	31-Oct-21	31-Jan-22	31-May-22	24-Jul-22	1-Nov-22
Outstanding	1	1	1	1	1	1
Good	21	19	20	20	19	16
Requires Improvement	7	6	5	3	2	3
Inadequate	-	-	-	-	-	-
Total	29	26	26	24	22	20
Compliant %	75.9%	76.9%	80.8%	87.5%	90.9%	85.0%
Note: Homes are removed from the above analysis as and when they are closed or sold. In addition to previous homes removed we have also now removed Abbey Place. Great Horkesley Manor was sold in October 2022 and is therefore excluded from the statistics at 1 November 2022.						

Scotland:

Average Grade	9-Aug-21	31-Oct-21	31-Jan-22	10-May-22	24-Jul-22	1-Nov-22
6	-	-	-	-	-	-
5	1	1	1	1	1	1
4	4	4	4	3	3	2
3	1	1	1	1	1	1
2	-	-	-	-	-	-
1	-	-	-	-	-	-
Note: Homes are inspected across five areas, each being awarded a grade as follows: 1–Unsatisfactory, 2–Weak, 3–Adequate, 4–Good, 5–Very Good, 6–Excellent. The Average Grade is the mean average of the five scores. Note: Broomfield was closed in July 2022 and Kingsgate was sold in October 2022						

As at 1 November 2022, 17 (85.0%) of the 20 English homes (those regulated by the CQC) were rated ‘Outstanding’ or ‘Good’.

No changes in the grades of the English homes have occurred since our last report. Only Highfield was inspected in the period, and this retained its ‘Good’ rating.

In respect of the Scottish homes, one home was inspected in one assessed area since our last update, this reduced the ratings in that area from a 4 to a 3 and thus reduced the overall average rating.

Capex

During the quarter to September 2022, total Capex of c.£740,000 was invested into the Homes. For the twelve months to 30 September 2022, Capex on the 26 homes totalled £2.44 million.

Based upon the average number of usable beds (1,263) in the year to 30 September 2022, this equates to a run-rate of c.£1,931 Capex per usable bed per annum.

As part of the budgeting procedures for the year to September 2022, a full assessment of the Capex needs of the Homes was carried out which indicated a Capex budget for the full year of c.£3.4 million. The run rate of the Capex spend over the last six months has been slower than budgeted due to continuing Covid-19 restrictions at some of the Homes and the shortage of contractors due to the increased demand for them following the pandemic.

The Capex detailed above was in addition to the c.£1,508 per usable bed spent on planned and preventative maintenance and general repairs in the year to 30 September 2022.

Closed and Sold Homes

At the start of the quarter to 31 March 2021, the portfolio stood at 42 trading homes.

Since that date, the following homes have closed (or are in the course of closure) and/or been sold:

- Nether Hall was sold as a going concern in January 2021
- Laureate Court was sold as a going concern in February 2021
- White Rose was sold as a going concern in March 2021
- St Mary’s was sold as a going concern in April 2021
- Nayland House was sold as a going concern in June 2021
- Sowerby House and Ty Dinas were sold as going concerns in August 2021
- Rose Martha Court closure completed in September 2021 and the home was sold in October 2021
- Bryan Wood and Ravenstone closure completed in October 2021
- Alwoodleigh closure completed in May 2022
- Swan House and Wordsworth House were sold as going concerns in May 2022
- Broomfield closure completed in July 2022
- Abbey Place was sold as a going concern in July 2022
- Hope House was sold as a going concern in September 2022
- Great Horkesley Manor was sold as a going concern in October 2022
- Kingsgate was sold as a going concern in October 2022

Therefore, as at 30 September 2022, the number of homes that were open and trading normally was 26. Unless stated otherwise, the results and KPIs in this update only cover these 26 homes; they do not include any of the sold or closing homes.

Summary Financial Performance – 12 months to September 2022

The trading results and main KPI's for the twelve months to September 2022 for the 26 homes open in the year to 30 September 2022 (compared to the year to June 2022) are summarised as follows:

	LFL Adjusted 12 months to 30-Jun-22 £'m	**LFL Adjusted** 12 months to 30-Sep-22 £'m	Variance £'m
Fee Income	44.83	46.29	1.46
Staff Costs	(29.23)	(30.91)	(1.68)
Operating Costs	(2.30)	(2.41)	(0.11)
Indirect Costs	(5.84)	(6.15)	(0.31)
EBITDARM	**7.46**	**6.82**	**(0.64)**
KPIs			
Usable Beds	1,263	1,263	-
Average occupancy	1,010	1,016	6
Average occupancy (%)	80.0%	80.4%	0.4%
Spot occupancy at period-end	1,023	1,024	1
Spot occupancy at period-end (%)	81.0%	81.1%	0.1%
Average weekly fee	850.9	873.6	22.7
CAPEX	2.27	2.44	0.17
Staff costs as a % of Fee Income	65.2%	66.8%	1.6%

As with the table on page one, while some minimal State funding has been recognised by the Group in respect of Covid-19 financial assistance up to 30 September 2022, this funding has been excluded from the figures in the table above.

Two homes in the 26-home portfolio were loss-making in the twelve months to September 2022 before accounting for any Covid-19 financial assistance: across these three facilities, the gross annual EBITDARM loss was c.£0.44 million.

Excluding these loss-making homes, the EBITDARM for the remaining 24 homes was c.£7.26 million (pre Covid-19 funding) for the twelve months to September 2022.

Overall Outlook

As previously reported, we continue to be of the view that occupancy rates can return to pre-pandemic levels in time but that this is unlikely to be before the end of the second quarter of 2023.

Local Authorities ('LA') and Integrated Care Boards remain under significant financial pressure and, as with any restructure of a public service the speed of decision making and appetite to commit to new ways of working, especially with the private sector, has been effectively reduced. Local social work teams are slower to assess customers from both a health and social and financial perspective. This means that the overall admissions process is lengthened, and subsequent length of stay is reduced. Recruitment and retention of staff continues to be a daily pressure on the business.

Inflation continues to rise, negatively impacting the overall cost base of the business and make internal decisions on savings and efficiencies more difficult, however pressure on margins will continue unless the Fair Cost of Care exercise delivers a significant increase in LA and NHS fee rates.

Agency costs remain high and, in our opinion, higher pay, flexible working and less accountability and responsibility for the staff that are provided by them makes this type of working very attractive. We expect that pressures on staff recruitment and wage inflation will continue for the rest of 2022.

There is significant pressure on indirect costs with most cost lines seeing significant inflationary increases.

Heat & light costs have increased by unprecedented amounts in businesses as they are not subject to any price cap. Energy suppliers are increasing business prices by far more than the prices for consumers due to the lack of restrictions and the Russia/Ukraine conflict.

The Group is not suffering the price hikes some competitors are seeing. Although the contracts are on an individual home basis, the Group was able to secure energy prices under contract prior to the material increases experienced over the last few months. This should protect the homes from any significant increases this year.

With regard to fee increases, overall, Local Authorities implemented April 2022 increases that are above those seen in prior years although they varied from LA to LA. We are in discussion with LA commissioners about how they can support the Homes, given the impact of inflationary increases however, while most acknowledge the pressures, none have yet, offered anything tangible by way of support.

The strategy of the CQC (England) and Care Inspectorate (Scotland) in respect of home inspections is to focus on high-risk services only, based upon intelligence gathered from a variety of sources and not on time specific routine reviews. This means that when services are inspected, the Regulators already have concerns and therefore there is more chance that the rating could fall. As no low-risk homes are being re graded and no new services that require a first inspection are being brought into the portfolio, it is likely that the overall group profile will reduce.

Larchwood (Northern Ireland Portfolio)

Unaudited trading statement as at 30 September 2022

Introduction

Note that this trading statement should be read in conjunction with the previous trading updates provided in the Notices to Noteholders, the most recent being dated 17 August 2022.

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

The 'Other Income' included in the table below represents the amounts received for loss of income in each of the quarters that have been paid by the business interruption insurers in respect of the claim for the closure of Oakleaves.

Summary Financial Performance – 3 months to September 2022

The trading results and main KPIs for the three months to 30th September 2022 are summarised as follows:

	3 mths to 30-09-21 £'m	3 mths to 30-06-22 £'m	3 mths to 30-09-22 £'m	Variance to LFL quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	3.67	4.16	4.20	0.53	0.04
Other Income	0.25	-	0.06	(0.19)	0.06
Staff Costs	(2.46)	(2.62)	(2.77)	(0.31)	(0.15)
Operating Costs	(0.20)	(0.21)	(0.22)	(0.02)	(0.01)
Indirect Costs	(0.26)	(0.34)	(0.34)	(0.08)	-
EBITDARM	**1.00**	**0.99**	**0.93**	**(0.07)**	**(0.06)**
KPIs					
Usable Beds – average for quarter	323	323	323	-	-
Usable Beds – at quarter-end	323	323	323	-	-
Average Occupancy for quarter	287	313	318	31	5
Average Occupancy for quarter %	88.9%	96.9%	98.5%	9.6%	1.6%
Spot occupancy at quarter-end	303	314	322	19	8
Spot occupancy at quarter-end %	93.8%	97.2%	99.7%	5.9%	2.5%
Average weekly fee	£972	£1,023	£1,006	£34	(£17)
CAPEX (£'m)	0.23	0.05	0.12	(0.11)	0.07
Staff costs as a % of Fee Income	67.0%	62.9%	65.9%	(1.1%)	3.0%

Notes:
Other Income represents the monies received from insurers in respect of the Business Interruption claim in respect of Oakleaves
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
Spot occupancy at quarter-end % is based on the number of usable beds at the quarter end, not the average number for the quarter
The average weekly fee and staff costs % are stated before accounting for 'Other Income'

Overall, EBITDARM for the quarter to 30 September 2022 represented a decrease of c.£60,000 from the previous quarter despite an increase in occupancy of 1.6% and an increase of c £58,000 in other income.

This decrease in EBITDARM was driven by:

- an additional working day compared to the previous quarter to June 2022; 92 days in the quarter to September
- Increase in annual leave used throughout the homes during summer months c.£80,000
- Increase in Agency use of c.£15,000
- Bank Holiday given for Queens funeral c.£15,000
- Extra 20 new staff recruited from previous quarter, induction/shadowing costs c.£10,000
- An increase in operating costs of c.£10,000 quarter on quarter as a result of inflationary pressure on provisions, medical supplies and incontinence products.

Covid-19 financial assistance of c.£59,000 was received in the quarter, a considerable decrease of £133,000 from the figure of c.£192,000 received in the prior quarter. Total Covid-19 funding for the financial year equated to c£408,000.

Confirmation has been received in October that the Health Trust will be ceasing any future Covid-19 financial assistance.

The business interruption insurance claim for Oakleaves Care Centre has now completed. No further funds are to be received. Insurance funds of £101,449 were received in the 12 months to 30 September 22.

Covid-19

The impact of COVID positive staff was greatly reduced in the first two months of this quarter, however some very limited impact was noted in the month of September. Within this quarter, the Department of Health gave a directive to cease the routine testing of asymptomatic residents in care homes, with the national testing centres having also been stood down. Alongside this, visiting restrictions were effectively lifted with visiting returning to pre-pandemic patterns. Prioritising safety for residents remains the focus for all Homes, and so Larchwood Care NI decided to continue with the safeguard of lateral flow testing of all staff, visitors and contractors on a daily basis across the Group.

COVID vaccination programmes for residents and staff commenced in September which should assist in the protection against any upward trajectory or unexpected winter pressures.

Occupancy

Across the quarter, occupancy increased by 8 clients, ending the quarter at 322 clients equivalent to 99.7% of effective beds.

Occupancy continued to rise gradually from the end of last quarter, increasing in July to 97.9%, a further increase of 0.5% to 98.4% in August and finally to 99.7% at the quarter end. Such percentages confirm that the demand for beds across the Group, remains strong and that the brand and reputation of Larchwood Care NI is very highly regarded in each location.

The current average rating for the Homes on the CareHome.co.uk website is 9.6., with all Homes scoring 9 and above and 4 out of 7 of the Homes scoring 9.8 and above. One Home has a review score of 9.9 and 3 were awarded Top 20 awards for the 21/22 year.

Average Weekly Fees

The overall average weekly fee for the quarter was £1,006 which was a decrease of £17 (1.7%) on the previous quarter.

As detailed earlier in this update, the figures for both quarters are inflated by the Covid-19 financial assistance monies which were included in Fee Income in each of the quarters. Before accounting for these monies, average weekly fees for the quarter to 30 September 2022 were £992, an increase of £16 on the figure reported for the previous quarter (also adjusted for Covid-19 funding).

Pre any Covid-19 funding, the average weekly fee for nursing clients was £1,054 for the quarter (previous quarter £1,023) whilst for residential clients the average weekly fee was £675 (previous quarter £674).

As reported in a prior update, in December 2021, an additional increase was announced, which was effective for the period from 1 November 2021 to 31 March 2022, of 3.2% for nursing care fees and 4.6% for residential care fees.

These additional fees were paid on the proviso that care home operators uplifted their employees' pay to a minimum of £9.50 per hour from 1 November 2021. This, in effect, brought forward the National Living Wage rate uplift which occurred on 1 April 2022.

The Health Trusts announced a further increase effective from 1st April 2022, of 1.8% for Nursing care fees and 1.3% for Residential Care Fees. In summary the 2021/22 tariff rates increased by 5% for Nursing fees and 5.9% for Residential fees.

The proportion of self-funded clients has reduced slightly with approximately 5% (previous quarter 7%) of beds across the Group being self-funded.

Costs

Staff costs increased by c.£150,000 on the previous quarter, due to an extra working day in the quarter to September 2022, 92 days in total.

Agency costs as a percentage of staff costs, for the quarter increased by 1.6% upon the previous quarter with monthly usage for the quarter to September 2022 averaging at 5.6%. During the previous quarter to June 2022, agency costs were c.£128,000; this spend increased by c£15,000 to c.£143,000 in the quarter to September 2022. This increase would be expected over the summer months.

Recruitment has been a consistent area of focus, as staff recruitment across the sector, and indeed all sectors has been well documented of late. Current vacancies across the Group for all grades of staff is 8.46%. However, taking account of positions having been recently recruited but not yet fully completed, this reduces the overall staff vacancy level to just 4.76% across the Group. As a result, there has been some additional associated expenditure on uniforms, staff training and staff induction.

Operating Costs were c.£7.81 per resident day in the quarter to September 2022, an increase of 5.1% on the quarter to June 2022 (c.£7.43) due to inflationary pressures.

Overheads remain unchanged from the previous quarter.

Compliance and Quality

Five inspections were undertaken by the RQIA in the quarter to September 2022.

Oakleaves Care Centre had its second inspection since reopening and all previous areas for inspection reviewed were assessed as compliant. The inspector reported that the care and teamwork within the home was very positive and the quality of compassionate care within the home was assessed as very high. Three areas for improvement were stated.

Apple Blossom Lodge was inspected by two care inspectors who reported that the care practices in the Home were of a very high standard and the compassionate management of residents was praised. Two areas for improvement were stated.

Apple Blossom was also inspected by a pharmacy inspector who assessed that the standard of medicines management in the Home was very good. No areas for improvement were stated.

A care inspection was conducted in Glebe Care Centre. The inspector assessed that staff were suitably trained and skilled to manage the complex nature of care within the Home and the quality of care delivery was assessed as very good. The one previous area for improvement under the care division was assessed as met. Staffing challenges were noted within the ancillary departments and some areas for improvement were stated.

A care inspection in Melmount Manor reviewed previous areas for improvement and the inspector stated that it was positive to note that all areas stated were assessed as compliant. All stakeholders who provided feedback reported positively on living and working in the Home. Two areas for improvement were noted.

It should be noted that RQIA inspection reports continue to include previous quality improvement plans from all inspection units (care, pharmacy, estates and finance) until they are reassessed and met as compliant.

Capex

In the quarter to September 2022, c.£120,000 was spent on Capex.

This included a major plant room upgrade at Apple Blossom Lodge.

Over the past 12 months, c.£1,645 (previous quarter c.£2,040) has been spent on average per effective bed across the Homes (excluding the Capex detailed in previous reports which was spent on the repair and refurbishment of Oakleaves during the last twelve months).

This is in addition to the c.£390 (previous quarter c.£450) spent per effective bed in the past 12 months on repairs and maintenance to the Homes.

Summary Financial Performance – 12 months to September 2022

The trading results and main KPI's for the twelve months to 30 September 2022 for the Homes (compared to the twelve months to 30 June 2022) are summarised as follows:

	12 mths to 30-Jun-22 £'m	12 mths to 30-Sep-22 £'m	Variance £'m
Fee Income	15.50	16.01	0.51
Other Income	0.29	0.10	(0.19)
Staff Costs	(10.30)	(10.60)	(0.30)
Operating Costs	(0.85)	(0.87)	(0.02)
Indirect Costs	(1.32)	(1.40)	(0.08)
EBITDARM	**3.32**	**3.24**	**(0.08)**
KPIs			
Usable Beds – average for year	323	323	-
Usable Beds – at year-end	323	323	-
Average Occupancy for year	302	310	8
Average Occupancy for year %	93.5%	96.0%	2.5%
Spot occupancy at year-end	314	322	8
Spot occupancy at year-end %	97.2%	99.7%	2.5%
Average weekly fee	£983	£990	£7
CAPEX (£'m)	0.62	0.51	(0.11)
Staff costs as a % of revenue	66.4%	66.2%	(0.2%)

The EBITDARM generation in the twelve months to September 2022 represents c.20% of turnover (a decrease of 1.4 percentage when compared to the twelve months to June 2022). On a home-by-home basis (including Oakleaves), EBITDARM generation ranged from 10.3% to 34.5% in the twelve months to September 2022.

Overall Outlook

The amount of annual percentage uplift of fee income which is to be granted by the Department of Health in the incoming year, is of significant importance to the Portfolio moving forward. The current climate of higher wage inflation and anticipated increased Union presence, plus exceedingly high energy costs in the midst of this global energy crisis, will each have a considerable effect on the Portfolio.

The latest government crisis both locally and nationally has serious economic consequences for the Health and Social Care sector. Promises made in relation to the funding of elderly care, never happened and the current financial difficulties within the NHS, particularly post Covid, have wider ramifications for the independent sector.

Inflationary pressures on provisions, repairs and supplies remain. Repricing of all elements across the Portfolio has occurred, yet costs are continuing to rise. Energy costs, particularly over the winter period, will be in constant focus. Staff are being drawn to the higher pay rates on offer from the agencies and recruitment remains challenging as a result.

The future impact of Covid-19 coming into Winter 2022 is as yet unforeseen. It is worth noting that current government figures of Covid cases show an upwards trajectory and the unknown winter pressures upon services are at an early stage.