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

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

Date:- 15 February 2023

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 14 November 2022 (the "**14 November Announcement"**).

In the 14 November Announcement, the Special Servicer affirmed to Noteholders that, among other things, that six trading care homes and seven 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 1 February 2023 (the "**1 February Announcement**").

In the 1 February 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 £1,700,000.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 2 February 2023 (the "2 **February Announcement**").

In the 2 February 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 £1,550,000.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 14 February 2023 (the "2 **February Announcement**").

In the 14 February 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 £1,175,000.

Update on the Strategy for the Portfolio

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

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

Currently, sixteen trading care homes and six 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 six 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), the properties are currently being marketed for sale.

b) a closed care home located in Droitwich that was deemed uneconomic to continue operating and which having been under offer and in the legal process, is currently being reviewed following the withdrawal of the buyer.

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 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	5	5	100%	2	2	0
"	Scotland	1	1	100%	1	1	0
	Total	6	6	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 three care homes that having been marketed for sale, are now in legal documentation.

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

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	18	9	50%	3	3	1
"	Scotland	4	0	0%	0	0	0
"	NI	7	7	100%	0	0	0
	Total	29	16	55%	3	3	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, five 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 commenced in January 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 with the Operator, the Special Servicer and Asset Manager engaged a sales agent to market the portfolio for sale and marketing commenced in January 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	5	5	100%	2	2	0
“	Scotland	1	1	100%	1	1	0
		6	6	100%	3	3	0
Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	18	9	50%	3	3	1
“	Scotland	4	0	0%	0	0	0
“	NI	7	7	100%	0	0	0
	Total	29	16	55%	3	3	1
	Total	35	21	60%	6	6	1

Trading Update

Similar to the 14 November 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 14 November Announcement, following the restructure & restatement of the Ashbourne Whole Loan in December 2013, a re-ordering of the priority of payments was concluded.

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

The following excerpt of the waterfall as set out in the November 2013 Amended and Restatement Facility Agreement provides a description of (and amounts due) to certain creditors and the order in which any amounts received from the Borrower are applied by the Agent or Security Trustee.

Payments subject to the waterfall which rank below the categories set out in the excerpt are not expected to be recovered and so are not included.

All the data therein is as at 16 January 2023 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	273,849.13	273,849.13
(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	100,305,029.33	100,578,878.46
(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	100,578,878.46

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: 15 February 2023

Schedule 1

Larchwood Care Trading Update

Disclaimer

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

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

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

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

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

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

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

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

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

Larchwood (UK Mainland Portfolio)

Unaudited trading statement as at 31 December 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 14th November 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). In the quarter to December 2022, a further two homes were sold these being Great Horkesley Manor and Kingsgate, both in October 2022.

Highfield was sold in January 2023 and Stambridge Meadows and Alwoodleigh were sold in February 2023.

For the exception of Highfield and Stambridge Meadows which were sold following the end of the quarter to December 2022, 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. Alwoodleigh being a closed home has been excluded from trading updates since its closure in May 2022.

Therefore, unless otherwise stated, the figures in this update only include the results for the 24 homes (‘the Homes’) that were trading, and not in the course of closure, as at 31 December 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 December 2022

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

	LFL Adjusted	LFL Adjusted	LFL Adjusted	Variance to Like For Like quarter in prior year	Variance to prior quarter
	3 months to 31-Dec-21 £'m	3 months to 30-Sep-22 £'m	3 months to 31-Dec-22 £'m	£'m	£'m
Fee Income	10.25	11.48	11.61	1.36	0.13
Staff Costs	(6.79)	(7.41)	(7.72)	(0.93)	(0.31)
Operating Costs	(0.53)	(0.61)	(0.65)	(0.12)	(0.04)
Indirect Costs	(1.45)	(1.48)	(1.65)	(0.20)	(0.17)
EBITDARM	**1.48**	**1.98**	**1.59**	**0.11**	**(0.39)**
KPIs					
Usable Beds	1138	1138	1138	0.00	0.00
Average occupancy	933	942	945	12	3
Average occupancy (%)	82.0%	82.8%	83.0%	1.1%	0.3%
Spot occupancy at period-end	947	940	929	(18)	(11)
Spot occupancy at period-end (%)	83.2%	82.6%	81.6%	(1.6)	(1.0)
Average weekly fee	836	927	934	98.18	7.18
CAPEX	0.37	0.73	0.32	(0.05)	(0.41)
Staff costs as a % of Fee Income	66.2%	64.5%	66.5%	0.3%	1.9%

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 decreased by c.£0.39 million (19.6%) quarter-on-quarter principally as a result of increased staff, operating and indirect costs.

Average fee has increased by £7 (0.8%) and occupancy has also improved slightly quarter-on-quarter, however, the increased levels of respiratory infections experienced nationally impacted overall occupancy and this dropped to 929 (81.6%) at 31 December 2022. Staffing costs have however risen by £310,000 (4.1%) 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-19 monies carried over from prior periods and as yet not recognised in the P&Ls.

Covid-19 / Infectious Diseases

Towards the end of this trading period, cases of Covid-19 began to rise again across the portfolio. Whilst the numbers remained relatively low, this coincided with updated guidance from central government reducing the requirement for the mandatory wearing of masks for care home staff. The management team revised their risk matrix and implemented a policy of local assessment of risk when determining the most appropriate use of PPE for staff and visitors.

Home closures are now the exception rather than the rule and the length of the closure where it does occur is on average 6.1 days.

Staff vaccination levels for Covid 19 and Influenza continue to fall compared with the same period in the previous two years. Control of infection remains a high priority and the homes continue to perform well as judged by internal and external audit scores.

Occupancy

On a LFL basis for the 24 homes in the portfolio as at 31 December 2022, average occupancy for the quarter increased by 3 clients compared to the quarter to 30 September 2022.

The final quarter of the year traditionally suffers from a seasonal slow-down in people searching for care. During the quarter to 31 December 2022, the effects of this on marketing channels were smaller than expected, with only a 6% reduction in website visitors compared to the quarter to 30 September 2022 whilst the number of people reached by the homes' Facebook Pages decreased by just 4% quarter-on-quarter.

Despite the decrease in the number of people reached by the homes' Facebook Pages, the engagement rate increased by 2% quarter-on-quarter through more likes, comments and shares on the homes' posts.

Increasing support to the homes with Facebook marketing forms a key part of the strategy for 2023 with the addition of a marketing assistant to the marketing function. The roll out of new home brochures continues, with Cavell House, Lily House and the Hollies produced and delivered to the homes during November 2022.

Average Weekly Fees

Average weekly fees for the quarter to 31 December 2022 were £934 compared to the previous quarter average of £927, an increase of £7 per week (0.8%). This is reflective of the adjustments made for home sales and closures.

Fee increases for all clients generally occur on 1 April each year. The increases for 2022 were as follows:

- English Local Authorities' (LAs) average increase was c.7.3% for nursing rates and c.7.4% for residential.

- Scottish LAs – 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 12%.

Due to the inflationary cost increases seen across the economy this year, the care home operators intend to apply a 12% private increase again. The expectation is that LA's will find it difficult to justify an increase of less than 7.5%. This view is supported by early announcements by LAs in Blackpool and Manchester.

Costs

Overall staff costs increased as a percentage of fee income by c.1.9% quarter-on-quarter, compared to a c.1.3% increase in the previous quarter-on-quarter.

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.5,498 hours per week, an increase of c.5.3% on the previous quarter on a LFL basis.

There has been some sign of recovery in recruitment during this period, assisted by the Home Office granting a sponsorship licence for overseas workers, however recruitment remains a significant challenge. Benchmarking of pay and terms & conditions compared with competitors is regularly carried out on a home-by-home basis and revised where appropriate.

Operating Costs increased by c.6.6% from the previous quarter, rising to c.£7.43 per client day. This was mainly driven by the inflationary pressures that are being experienced on food and other direct costs.

Indirect Costs increased by c.£17,000 quarter-on-quarter, which was principally driven by increased expenditure on utilities and insurance.

Compliance

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

England:

Grade	31-Oct-21	31-Jan-22	31-May-22	24-Jul-22	1-Nov-22	5-Feb-23
Outstanding	1	1	1	1	1	1
Good	19	20	20	19	16	15
Requires Improvement	6	5	3	2	3	2
Inadequate	-	-	-	-	-	0
Total	26	26	24	22	20	18
Compliant %	76.9%	80.8%	87.5%	90.9%	85.0%	88.9%
Note: Homes are removed from the above analysis as and when they are closed or sold. Great Horkesley Manor was sold in October 2022 and is therefore excluded from the statistics at 1 November 2022.						

Scotland:

Average Grade	31-Oct-21	31-Jan-22	10-May-22	24-Jul-22	1-Nov-22	5-Feb-23
6	-	-	-	-	-	-
5	1	1	1	1	1	1
4	4	4	3	3	2	1
3	1	1	1	1	1	2
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: Kingsgate was sold in October 2022						

As at 5 February 2023, 16 (89.0%) of the 18 English homes (those regulated by the CQC) were rated ‘Outstanding’ or ‘Good’.

There have been no changes in the grades of the English homes since our last report.

In respect of the Scottish homes, Cranford and Eastwood were inspected in October 2022.

The grading at Cranford reduced from a 4 to a 3. This was caused by an unfortunate set of circumstances whereby there was an abnormally low level of staff members on the day of the inspection. The staff absences were caused by an unforeseen illness and failure of the agency nurse to arrive. A reinspection is expected in the coming quarter and the level 4 grading is expected to be reinstated.

Capex

During the quarter to December 2022, total Capex of c.£320,000 was invested into the Homes. For the twelve months to 31 December 2022, Capex on the 24 homes totalled £2.6 million.

Based upon the average number of usable beds (1,138) in the year to 31 December 2022, this equates to a run-rate of c.£2,284 Capex per usable bed per annum.

As part of the budgeting procedures for the year to September 2023, 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 Capex detailed above was in addition to the c.£1,551 per usable bed spent on planned and preventative maintenance and general repairs in the year to 31 December 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
- Highfield was sold as a going concern in January 2023
- Stambridge Meadows was sold as a going concern in February 2023
- Alwoodleigh was sold as a closed home in February 2023

Therefore, as at 31 December 2022, the number of homes that were open and trading normally was 22. Unless stated otherwise, the results and KPIs in this update only cover these 22 homes; they do not include any of the sold or closing homes. Since the sales of Highfield and Stambridge Meadows were after the quarter end, these homes have been included in this update.

Summary Financial Performance – 12 months to December 2022

The trading results and main KPI's for the twelve months to December 2022 for the 22 homes open in the year to 31 December 2022 (compared to the year to September 2022) are summarised as follows:

	LFL Adjusted	LFL Adjusted	Variance
	12 months to 30-Sep-22 £'m	12 months to 31-Dec-22 £'m	£'m
Fee Income	42.82	44.18	1.36
Staff Costs	(28.44)	(29.37)	(0.93)
Operating Costs	(2.21)	(2.33)	(0.12)
Indirect Costs	(5.79)	(5.99)	(0.20)
EBITDARM	**6.38**	**6.49**	**0.11**
KPIs			
Usable Beds	1,138	1,138	-
Average occupancy	933	936	3
Average occupancy (%)	81.99%	82.25%	0.26%
Spot occupancy at period-end	940	929	(11)
Spot occupancy at period-end (%)	82.60%	81.63%	(0.97%)
Average weekly fee	880	905	25
CAPEX	2.40	2.60	0.20
Staff costs as a % of Fee Income	66.42%	66.48%	0.06%

As with the table on the second page, while some minimal State funding has been recognised by the Group in respect of Covid-19 financial assistance up to 31 December 2022, this funding has been excluded from the figures in the table above.

Two homes in the 22-home portfolio were loss-making in the twelve months to December 2022 before accounting for any Covid-19 financial assistance: across these facilities, the gross annual EBITDARM loss was c.£0.88 million.

Excluding these loss-making homes, the EBITDARM for the remaining 20 homes was c.£7.3 million (pre Covid-19 funding) for the twelve months to December 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 2023.

LAs 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 makes 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 the 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 2023.

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

Heat and light costs have increased by unprecedented amounts in businesses. Energy suppliers have increased business prices by far more than the prices for consumers due to the lack of restrictions and the Russia Ukraine conflict. Since the quarter end the market has shown signs of softening and energy prices are now beginning to fall. The Group was able to secure energy prices under contracts prior to the material increases experienced over the past year and this has protected the homes from significant increases.

With regard to fee increases, overall, LA's 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 given the impact of inflationary increases and we are beginning to see signs that commissioners are recognising these pressures.

As reported previously, 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 31 December 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 14 November 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 December 2022

The trading results and main KPIs for the three months to 31st December 2022 are summarised as follows:

	3 mths to 31-12-21 £'m	3 mths to 30-09-22 £'m	3 mths to 31-12-22 £'m	Variance to LFL quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	3.83	4.20	4.14	0.31	(0.06)
Other Income	-	0.06	-	-	(0.06)
Staff Costs	(2.62)	(2.77)	(2.70)	(0.08)	0.07
Operating Costs	(0.23)	(0.22)	(0.22)	0.01	-
Indirect Costs	(0.32)	(0.34)	(0.38)	(0.06)	(0.04)
EBITDARM	**0.66**	**0.93**	**0.84**	**0.18**	**(0.09)**
KPIs					
Usable Beds – average for quarter	323	323	323	-	-
Usable Beds – at quarter-end	323	323	323	-	-
Average Occupancy for quarter	305	318	319	14	1
Average Occupancy for quarter %	94.4%	98.5%	98.8%	4.4%	0.3%
Spot occupancy at quarter-end	304	322	315	11	(7)
Spot occupancy at quarter-end %	94.1%	99.7%	97.5%	3.4%	(2.2%)
Average weekly fee	£955	£1,006	£988	£33	(£18)
CAPEX (£'m)	0.27	0.12	0.11	(0.16)	(0.01)
Staff costs as a % of Fee Income	68.4%	65.9%	65.2%	(3.2%)	(0.7%)

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 31 December 2022 represented a decrease of c.£90,000 from the previous quarter despite an increase in occupancy of 0.3%. and a reduction in staff costs as a percentage of fee income of 0.7%.

This decrease in EBITDARM was driven by:

- A decrease of c£60,000 in Covid Funding. The Dept. of Health confirmed that Covid Funding ceased from 30 September 2022.
- An increase in indirect costs of c.£40,000 quarter on quarter as a result of inflationary pressures, mainly on utility costs.
- A decrease of c £58,000 in Other Income, which was the remainder of Buildings Insurance claim at Oakleaves Care Centre which was included in the previous quarter.

Covid-19

At the commencement of the period, Covid trends remained low across the Homes and the Province generally. Outbreak definitions were redefined by the Public Health Agency allowing Homes to continue with normal processes, even in situations where low levels of Covid cases were reported. Larchwood Care NI Homes continued to monitor both internal and general societal trends and to implement risk management control measures including asymptomatic testing of staff and visitors to the Homes. These measures have demonstrated to have been effective in this period and aided with early identification and the use of isolation periods when necessary.

Towards the end of the period and in particular, around the December festive period, levels of transmission in the population rose sharply and this impacted most noticeably upon staffing as the circulation of Covid in the community caused some staff to test positive. With no restrictions on visiting and a normalisation of engagement between residents and relatives, this saw an increase in positive resident cases, although symptoms were generally very mild and passed without medical intervention.

Testing, isolation, visiting and risk management strategies were further revised prior to Christmas by statutory authorities with further guidance to limit the need of isolation of residents who test positive, normalise visiting completely and to indicate a direction of travel towards providers self-assessing the need for mask wearing in care homes.

At the same time, the month of December 2022 saw a re-emergence of influenza and the seasonal flu was shown to have a greater impact upon the well-being of those who were affected than Covid. Currently there are no Covid positive residents or cases of influenza across the Group.

Occupancy

Across the quarter, average occupancy increased by one client from the previous quarter to 319, 98.8% occupancy. However, the spot occupancy stats, recorded on 31December 2022, saw a slight reduction of four clients across the Group to 97.5%. This slight decline was due to care management staff from the Health Trusts on leave over the festive period, unable to assist with bed placement.

October saw occupancy levels at 98.8%. which increased to 99.2% in November. This then reduced marginally again in December, to 98.8%. Post quarter end, occupancy has continued to improve in a positive trajectory with 323 clients (100%). Currently, as of 26 January 2023 there are no vacant beds across the Group. Demand for beds in each of the Larchwood Homes throughout the Province, remains very strong.

The current average rating for the Homes on the CareHome.co.uk website is 9.7.

Out of the seven Larchwood Homes across the Province, one Home is included within the top 10 listings of Nursing Homes in all of Northern Ireland. A further five Homes are included within the top 20 listings of Nursing Homes in all of Northern Ireland, with just one Home outside the top 20, sitting in 21st. position, which is a great result.

Average Weekly Fees

Average weekly fees for the quarter to 31 December 2022 were as follows:

- Nursing £1,048 (Previous Quarter £1,054)
- Residential £677 (Previous Quarter £675)
- Overall, £988 (Previous Quarter £1,006)

The overall average weekly fee for the quarter was £988 which was a decrease of £18 (1.8%) on the previous quarter. This is due to the cessation of Covid funding from the end of September 2022.

The proportion of self-funded clients remains the same this quarter, with approximately 5% of beds across the Group being self-funded, this is mainly due to the homes being paid gross by the Health Trusts.

Costs

Staff costs decreased by c.£70,000 on the previous quarter, due to the additional annual leave requirements over the summer months in the previous quarter.

Average agency costs for this quarter increased marginally by 0.6% upon the previous quarter, to 5.8%. with a spend of c£157,000. There was some additional agency used over the Christmas and New Year periods which was in addition to some short term Covid related absence in the Homes, plus the current vacancies.

Operating Costs were c.£7.36 per resident day in the quarter to December 2022, a 5.8% reduction on the quarter to September 2022 (c.£7.81).

Overheads were c.£40,000 higher than the previous quarter with the largest increases being the spend on utilities, mainly electricity and insurance costs.

Compliance and Quality

One inspection was undertaken by the RQIA in the quarter to December 2022.

This took place in Sperrins Residential Home, a 12 bedded residential unit within Melmount Manor. The inspection went well, the inspector assessed that staff were observed to have caring, cheerful and friendly interactions with residents and that overall care delivery was very good. One area for improvement was assessed as met from the last care inspection and one new area for improvement was stated.

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 December 2022, c.£111,000 was spent on Capex.

These monies were spent on upgrading kitchen and laundry equipment throughout the Group. Apple Blossom Lodge also received funds towards a full internal redecoration which included flooring, painting and bathroom upgrades plus completion of the plant room refit, which commenced last quarter.

Over the past 12 months, c.£1,163 has been spent on average per effective bed across the Homes. This is in addition to the c.£405 spent per effective bed in the past 12 months on repairs and maintenance to the Homes.

Summary Financial Performance – 12 months to December 2022

The trading results and main KPI's for the twelve months to 31 December 2022 for the Homes (compared to the twelve months to 30 September 2022) are summarised as follows:

	12 mths to 30-Sep-22 £'m	12 mths to 31-Dec-22 £'m	Variance £'m
Fee Income	16.01	16.32	0.31
Other Income	0.10	0.10	-
Staff Costs	(10.6)	(10.69)	(0.09)
Operating Costs	(0.87)	(0.86)	0.01
Indirect Costs	(1.40)	(1.44)	(0.04)
EBITDARM	**3.24**	**3.43**	**0.19**
KPIs			
Usable Beds – average for year	323	323	-
Usable Beds – at year-end	323	323	-
Average Occupancy for year	310	304	(6)
Average Occupancy for year %	96%	94.1%	(1.9%)
Spot occupancy at year-end	322	315	(7)
Spot occupancy at year-end %	99.7%	97.5%	(2.2%)
Average weekly fee	£990	£1,030	£40
CAPEX (£'m)	0.51	0.35	(0.16)
Staff costs as a % of revenue	66.2%	65.5%	-0.7%

The EBITDARM generation in the twelve months to December 2022 represents c.21% of turnover (an increase of 1% when compared to the twelve months to September 2022). On a home-by-home basis, EBITDARM generation ranged from 10.4% to 34.8% in the twelve months to December 2022.

Overall Outlook

Utility costs have continued to rise and are likely to increase further next quarter, taking account of the colder snap during January. The conflict between Russia and Ukraine is having a continual effect on energy costs with little sign of improvement. Inflationary pressures on provisions and supplies as noted last quarter, are continuing to rise. Some suppliers to the business are also having difficulty sourcing mechanical parts for kitchen, laundry and plant rooms.

Despite best efforts, recruitment of nurses and care staff continues to be challenging and an ongoing area of focus. As the costs of living are continually increasing, nursing and care staff are attracted by the higher pay rates of agency, which has always been difficult to compete against.

The latest government crisis both locally and nationally has serious economic consequences for the Health and Social Care sector. The overspend from local government will impact services moving forward.