Company name	**Hercules Eclipse06-4**
Headline	**Notice to Noteholders**

RNS Number : 5167N
Hercules(Eclipse 2006-4)plc
20 May 2020

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

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

Date:- 20 May 2020

HERCULES (ECLIPSE 2006-4) PLC

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

(the "**Issuer**")

NOTICE TO THE HOLDERS OF

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

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

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

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

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

(together, the "**Notes**")

The Notes are admitted to the official list of the Irish Stock Exchange plc and to trading on its regula

lation (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 announcements relating to the Issuer and released on the Irish Stock Exchange website on 17 February 2020 (t).

In the 17 February Announcement, the Special Servicer affirmed to Noteholders that, among other things, that in addition to the five closed homes presently being marketed (or being prepared for marketing) for sale, that thirty-two trading care homes are being marketed for sale.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 2 March 2020 (the "**2 March Announcement**").

In the 2 March Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £2.925m.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 21 April 2020 (the "**21 April Announcement**").

In the 21 April Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £2.6m.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 22 April 2020 (the "**22 April Announcement**").

In the 22 April Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £1.2m.

Update on the Strategy for the Portfolio

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

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

Prior to the Covid-19 pandemic, offers had been accepted on twelve of the fifteen care homes.

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

As these offers progess, the Special Servicer will update noteholders accordingly.

Ultimately, it is the intention of the Special Servicer, working with the Asset Manager and the Operator to continue preparing batches of trading homes for future marketing for sale so that eventually the entire portfolio is sold and recoveries made for the Lenders.

Covid-19

An update on the effects the current Coronavirus outbreak is having on the UK-mainland and Northern Ireland operations is included in the respective trading updates set out in Schedule 1 of the notice.

In terms of the effects on the disposal strategy, the lock-down of the care home sector and specifically the Larchwood Care business, has resulted in any non-essential visits being prohibited.

This in turn means that no visits by buyers advisors (e.g. valuers) a

longated as a consequence.

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

UK-mainland portfolio

Closed properties

Currently, there are 5 closed properties remaining of which:

a) one exchanged contracts on a conditional basis, subject to the purchaser obtaining a satisfactory planning consent (Warren Park), which has now been satisfied. A period of c.5 months has to elapse from exchange to allow for any form of judicial review and for certain ground investigations to be concluded, in advance of completion occurring.

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

c) one Mountwood situated on a separate site

are currently being evaluated for possible alternative use including residential redevelopment.

A "pre-a

lver Birches properties are situated, the

outcome of which is awaited.

A "pre-a

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

"	Scotland	1	1	100%	1	0	1
		5	1	20%	1	0	1

As the sales processes for the remaining closed properties develop toward a conclusion, the Special Servicer will update noteholders accordingly.

Trading care homes

Following the sale of five care homes, currently there are twenty two homes being marketed for sale or are in legal documentation following a marketing process.

Of these twenty two, twelve homes are currently in the legal process.

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

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	37	12	32%	10	9	2
"	Scotland	6	1	17%	1	1	0
"	Wales	2	2	100%	2	2	0
"	NI	7	7	100%	7	0	0
	Total	52	22	42%	20	12	2

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

For those trading homes that are in the course of legal documentation, approval will be required from the relevant regulator for the proposed change of registration to the proposed new owner, with the latter typically taking between 12 - 24 weeks to conclude.

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

Northern Ireland portfolio

As previously disclosed, the sale of the Northern Ireland business has been placed on hold, pending the resolution of the issue that arose last year.

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

For the avoidance of doubt (and as outlined in the latest trading statement in Schedule 1), the Northern Ireland business performance continues to be positive and all stakeholders including the preferred bidder remain committed to concluding a transaction as soon as practicable.

As the sale develops, the Special Servicer will update noteholders accordingly.

Larchwood portfolio summary

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

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

"	Scotland	1	1	100%	1	1	1
		5	1	20%	1	1	1

NB - the 4 remaining closed homes in England (3 of which are situated on the same site) are currently the subject of "pre-a lanning proposals, to maximise recoveries from a future sale of them, as they provide residential and commercial redevelopment opportunities.

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	37	12	32%	10	9	2
"	Scotland	6	1	17%	1	1	0
"	Wales	2	2	100%	2	2	0
"	NI	7	7	100%	7	0	0
	Total	52	22	42%	20	12	2
	Total	57	23	40%	21	13	3

Trading Update

Similar to the 17 February Announcement, the Special Servicer requested of the Asset Manager and the Operators (Health Care Management Solutions and Care Circle), that updated trading information on the respective businesses be prepared for disclosure to noteholders.

Such data has now been prepared and verified by the Operators and this is outlined in the attached Schedule 1.

Priority of Payments

As reported in the 17 February Announcement, following the restructure & restatement of the Ashbourne Whole Loan in December 2013, a re-ordering of the priority of payments was concluded.

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

The following excerpt of the waterfall as set out in the November 2013 Amended and Restatement Facility Agreement provides a description of (and amounts due) to certain creditors and the order in which any amounts received from the Borrower are applied by the Agent or Security Trustee. Payments subject to the waterfall which rank below the categories set out in the excerpt are not expected to be recovered and so are not included.

All the data therein is as at 16 April 2020 and has been reviewed and confirmed by the Agent as correct.

Rank	Description	Amount Outstanding (£)	Cumulative Amount Outstanding (£)
1st	In or towards payment pro-rata of any due & payable Asset Management Fee (provided that no Asset Management Fee Subordination Event has occurred)	Nil	Nil

2nd	In or towards payment pro-rata of any unpaid fees, costs and expenses of the Agent and Security Trustee under the Finance Documents	Nil	Nil
3rd	In or towards payment pro-rata of:		
(A) *	any accrued interest or commission which has accrued due after 21 November 2013 (the "Effective Date") but is unpaid to the Priority A Lenders; and	Nil	Nil
(B)	any periodic payments (not being as a result of termination or closing out) which have accrued due after the Effective Date but are unpaid to the hedging bank in respect of the Priority A Hedging Liabilities	Nil	Nil
4th	In or towards payment pro-rata of:		
* (A)	interest due but unpaid on the Outstanding Priority A Interest Advance	Nil	Nil
(B) *	interest due but unpaid on the Outstanding Priority A Amortisation Advance	Nil	Nil

(C)	interest due but unpaid on the Outstanding Priority A Hedging Advance; and	Nil	Nil
(D)	interest due but unpaid on the Outstanding LPI Hedging Advance	Nil	Nil
5th	In or towards payment pro-rata of:		
(A) *	the Outstanding Priority A Interest Advance	Nil	Nil
(B)	the Outstanding Priority A Hedging Advance; and	Nil	Nil
(C)	the Outstanding LPI Hedging Advance	Nil	Nil
6th	In or towards payment pro-rata of:		
(A) *	the Outstanding Priority A Amortisation Advance	355,203.13	355,203.13
(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 Cla		

	Amended and Restated Facility Agreement; and		
(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	130,458,445.46

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

* - t ll 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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(in its capacity as Trustee)

Date: 20 May 2020

Schedule 1

Larchwood Care Trading Update

Disclaimer

This interim management statement (the "**Update Statement**") has been prepared by Healthcare Management Solu ("**HCMS**") a le Management Limited ("**Care Circle**"), managers of the Operators of the Larchwood Care UK-mainla 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:

h /w (UK-mainland portfolio); and

h //www.la / (Northern Irela lio)

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 rela

Larchwood (UK Mainland Portfolio)

Unaudited trading statement as at 31 March 2020

Introduction

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

As detailed previously, five homes closed during the quarter to 30 June 2019 being Brookes House, Copper Beeches, Mountwood, Wickwar and Withy Grove. Furthermore, two homes closed during the quarter to 31 December 2019 being Fleetwood Lodge and Lauriston House.

In addition, Ladyfield House was sold as a going concern on 29 January 2020.

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

Therefore, unless otherwise stated, the figures in this update only include the results for the 47 homes ('the Homes') that were open for the full year to 31 March 2020.

Harmony House and King's Court were sold as going concern care homes during April 2020. However, as these homes traded within the portfolio for the full period covered by this update, we have included the results for these homes within the figures presented.

As and when further homes are sold, the results from these homes will be excluded from the figures in the future updates with adjustments made to the LFL figures as required.

Summary Financial Performance - 3 months to March 2020

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

	LFL Adjusted 3 months to 31-Mar-19 £'m	**LFL Adjusted** 3 months to 31-Dec-19 £'m	**LFL Adjusted** 3 months to 31-Mar-20 £'m	Variance to Like For Like quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	16.69	17.49	17.41	0.72	(0.08)
Staff Costs	(10.41)	(11.36)	(11.14)	(0.73)	0.22
Operating Costs	(0.92)	(1.00)	(0.98)	(0.06)	0.02
Indirect Costs	(2.05)	(2.13)	(2.27)	(0.22)	(0.14)
EBITDARM	**3.31**	**3.00**	**3.02**	**(0.29)**	**0.02**
KPIs					
Usable Beds	2,269	2,221	2,221	(48)	-
Average Occupancy	1,897	1,850	1,856	(41)	6
Spot occupancy at quarter-end	1,891	1,828	2,015	124	187
Average weekly fee	684	719	722	38	3
CAPEX (£'m)	0.99	1.27	1.30	0.31	0.03
Staff costs as a % of revenue	62.4%	64.9%	64.0%	(1.6%)	0.9%

Notes:

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

The movements in occupancy and staff costs percentage are expressed on a percentage point basis.

Overall, EBITDARM for the quarter to 31 March 2020 represented:

- A reduction of c.£290,000 (c.9.1%) on the same quarter in 2019 driven by a reduction in average occupancy in the quarter and increased staff costs
- A marginal improvement of c.£0.02 million on the quarter to 31 December 2019 as costs savings in staff and direct costs were offset by lower revenue as a result of the shorter quarter and increased indirect costs.

Covid-19

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

The first Covid-19 cases were reported in the UK in January 2020 although the virus only materially impacted on the Homes in March 2020.

The Homes were amongst the first in the United Kingdom to self-impose a lockdown which ceased access to the Homes for all but staff and essential visitors.

We have adopted a four-stage approach to managing the Covid-19 pandemic as follows:

- Stage 1 - Minimising the risk of Covid-19 entering the homes
- Stage 2 - Manage the risk of contagion to residents and staff
- Stage 3 - Provide effective targeted support for Home Managers and their teams

- Stage 4 - Keeping people in touch

To date, 79% of the Homes have not sent anyone to hospital with symptoms of the virus; in addition, 28% of the Homes have not been required to place any clients in isolation or in hospital.

Sadly, up to 13 May, there had been 89 Covid-19 related deaths of clients across 21 of the Homes. It is, however, pleasing to report that there have been no staff related deaths.

It is to be acknowledged that the staff team have demonstrated a tremendous attitude in their approach of caring for the clients in extremely difficult circumstances.

To date, 93 staff members have been furloughed including 14 due to pregnancy and childcare issues. In addition, 12 Home managers have been required to take periods of isolation.

Whilst financial support for the Care Sector has been made availa le by Central Government, the form and extent of this support is differing from Local Authority (LA) to LA. It is likely to be several months before the true picture of this support can be ascertained. No provision has been made in the management accounts for the quarter to March 2020 for any financial support from LAs in respect of Covid-19.

In the coming months, we expect to see ongoing restrictions in all ca lly. It is unlikely that we will see full access, for anything other than essential visits, for some time. Homes will need to return to normal operations very carefully a likely that this will ha local a l indicators.

The increased use of PPE will continue for some considerable time bringing with it associated cost pressures.

Occupancy

On a LFL basis for the 47 homes in the portfolio as at 31 March 2020, average quarterly occupancy increased by 6 clients in the quarter to March 2020.

From the start of the quarter, occupancy remained broadly stable through to the last 10 days of March; during this period a net rise in occupancy of 16 clients was recorded in c.11 weeks.

Towards the end of March, several LAs forward purchased vacant beds for several months; the two largest being Essex and Huddersfield (a total of 141 beds for six months). By 31 March, 161 beds had been purchased by LAs on forward block contracts.

Driven by these purchases, occupancy increased by 171 in the final ten days of March ending the quarter at 2,015 clients.

Post quarter end, maintaining occupancy has been a challenge as a result of lower than normal admissions to the homes and an abnormally high level of recorded deaths. In the five weeks following the quarter-end, occupancy has fallen by c.7.1 percentage points.

This is unsurprising given the current circumstances that the Care Sector finds itself in; based on anecdotal evidence, this appears to be in line with the experiences of other operators.

The level of admissions currently is lower than the normal r -rate for several factors including:

1. A significant number of admissions were made in the very early stages of the pandemic while the NHS was trying to clear beds in anticipation. This meant that there were fewer patients to discharge in subsequent weeks.
2. Families that have been furloughed or made redundant can now look after dependent relatives where otherwise they would have had to look at a care home solution.
3. Social work departments are busy dealing with Covid19 issues, self-isolating or in lockdown therefore having less time to carry out assessments.
4. Current media stories are portraying care homes as virus hotspots and this is not only likely to deter some from seeking a care home placement but is resulting, in some cases, in families seeking to take relatives out of care homes to protect them from catching the virus.
5. There is some sector evidence (although not so much within Larchwood) that there has been a proactive move to cut the number of hospital admissions over the past two months to reduce the pressure on the NHS and also reduce the number of elderly exposed to Covid-positive hospital environment. This in turn will reduce the number being discharged from hospitals into long term care settings.

Discussions with the CQC together with public information released by other operators suggest that the major operators are all experiencing a similar decline in occupancy or more.

It may be as a consequence of points 2 and 4 above but the number of private client enquiries has all but ceased through April. This may have a slight negative impact on the overall AWF in the short to medium term.

The Carehome.co.uk score for the group remains strong at 9.3. The number of Howdidwedo? feedback submissions have drastically reduced during April as expected given lockdown and subsequent lack of visitors to the services. The overall score remains at the previous 9.3 for the Group.

Average Weekly Fees

Average weekly fees for the quarter to 31 March 2020 were £722 compared to the previous quarter average of £719.

The average weekly fee has remained broadly constant quarter on quarter and represents an improvement of £38 (c.5.6%) from the same quarter in 2019.

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

- English LA's - these fee increases will not be formally agreed (or received) for several months following the commencement of the new financial year. These increases will differ from LA to LA but we are forecasting an average increase of c. 4.17% (against an actual increase of 4.63% in the previous year). For this year, analysis of these increases may be more difficult as certain LAs seem to be merging the normal annual increases with the Covid-19 support that they are offering.

  Note that these increases are not reflected in the management accounts until confirmed and thus it is unlikely that a significant element of the increase in fees due will be recorded in the management accounts for the quarter to June 2020.

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

- Self-funder fee increases this year have averaged 6% (2019: 7.5%); the number of clients paying top-u

  -funders from 512 to 492.

At the end of April 2020, it was announced that the NHS-funded nursing care standard weekly rate per person was increasing from £165.56 to £180.31 per week; this increase being backdated to 1 April 2019. This relates to additional income of c.£40,000 per week for the Homes which aren't included in the figures for the quarter to March 2020, nor in the figures for the quarters since 1 April 2019.

Costs

The single largest cost for the Homes is payroll. Overall staff costs decreased c.1.9% quarter on quarter partly driven by the shorter quarter (91 days in the quarter to March 2020 v 92 days in the quarter to December 2019) and partly due to staffing efficiencies delivered by the business.

Note that, whilst outside the quarter under review, the National Living Wage increased on 1 April 2020 from £8.21 an hour to £8.72 an hour, an increase of c.6.2%. This directly affects 53.9% of Larchwood's workforce by number and increases the expectation of non-National Living Wage staff of receiving beyond inflation pay increases in order to maintain pay differentials between staff grades and groups.

Agency hours used increased from an average of 3,796 per week in the December 2019 quarter to 4,462 in the March 2020 quarter, an increase of c.17.5%. This increase was driven by continued pressure on recruitment, especially for Care Assistants and the need for permanent staff to take their outstanding annual leave allowance in the last quarter of the annual leave year. This is particularly prevalent in high focus services where staff had delayed leave in previous quarters in order to cover vacant shifts.

In late February we implemented an extra £3 per hour overtime rate for all staff as we began to foresee the impact of the virus on staff availability. Whilst it has not been necessary to increase staffing levels in most homes, there has been a need to cover significant levels of absence for periods of between 7 days and 12 weeks due to isolation rules.

At this point in the pandemic there has been a significant impact on recruitment. There is little to attract people to work in the sector at this time given the general level of remuneration, the perceived risks and a media that is fuelling fear. This means that despite national initiatives such as changes to DBS fees and processes, recruitment of new staff has all but ceased at this time.

Individuals from the hospitality sector with transferrable skills may, in the longer term, provide a potential recruitment pool. However, at this point, most are subject to Furlough and there is therefore little incentive to move. We anticipate that this will change once the Government begins to encourage workers back into work (noting the recent announcement to extend the Furlough Scheme through to October 2020).

Operating Costs marginally reduced quarter on quarter from c.£5.88 per resident day in the quarter to December 2019 to c.£5.82 per resident day in the quarter to March 2020.

Indirect Costs increased c.£140,000 quarter on quarter driven principally by the seasonal effect on the utility costs of the Homes.

Compliance

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

England:

Grade	18-Feb-19	15-May-19	5-Aug-19	31-Oct-19	31-Jan-20	30-Apr-20
Outstanding	-	1	1	1	1	1
Good	34	32	32	34	32	29
Requires Improvement	11	8	9	7	6	7
Inadequate	2	1	-	-	-	-
Total	47	42	42	42	39	37
Compliant %	72.3%	78.6%	78.6%	83.3%	84.6%	81.1%
Note: Homes are removed from the above analysis as and when they are closed or sold. Since our previous update, Kings Court and Harmony House have been sold leaving 37 English homes in the portfolio						

Scotland:

Average Grade	18-Feb-19	15-May-19	5-Aug-19	31-Oct-19	31-Jan-20	30-Apr-20
6	-	-	-	-	-	-
5	1	1	1	1	1	1
4	1	1	3	4	4	4
3	4	4	2	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.						

W les:

Average Grade	18-Feb-19	15-May-19	5-Aug-19	31-Oct-19	31-Jan-20	30-Apr-20
Compliant	2	2	2	2	1	1
Non-compliant	-	-	-	-	1	1
Note: Welsh homes are not given grades, it is only noted if they are compliant or not.						

81.1% of the 37 English homes (which are regulated by the CQC) are currently rated 'Outstanding' or 'Good'. Despite the reduction from last quarter, this remains above the 'for profit' average of c.79.7% across the residential sub-sector (*source: CQC Market Oversight 1 Jan 2020*).

Only seven homes are rated 'Requires Im Inadequate'.

Whilst two homes in the quarter achieved an improvement in their rating from 'Requires Im ' to 'Good', four homes were downgraded from 'Good' to 'Requires Improvement'. Since these inspections, we have been working hard to address the issues identified at the homes in question.

Note that CQC inspections have ceased since Lockdown was introduced in March.

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

In respect of the Scottish Homes, one home was inspected and suffered a decline in the grades awarded; as with the English homes downgraded, we are working hard to address the issues identified.

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

Capex

During the quarter to March 2020, total Capex of c.£1.30 million was invested into the portfolio. For the twelve months to 31 March 2020, Capex on the 47 homes totalled £4.80 million.

Based upon the average number of useable beds in the year (2,245) this equates to a run-rate of £2,137 per useable bed per annum (which is to the higher end of industry norms).

Note that the Capex spend in the June and September quarters is likely to be materially lower than the recent run-rate as a number of Capex projects have been placed on hold as access to the Homes to undertake Capex projects has been severely restricted as a result of the Covid-19 pandemic.

The Capex detailed above was in addition to the £1,049 per useable bed spent on planned and preventative maintenance and general repairs in the year to 31 March 2020.

Closed and Sold Homes

Following the closure of Heathmount in September 2018 and Brookes House, Copper Beeches, Mountwood, Wickwar and Withy Grove in April/May 2019, the portfolio amounted to 50 open homes.

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

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

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

In the quarter to 31 March 2020, one home, Ladyfield House, was sold as a going concern and thus the number of trading homes open as of 31 March 2020 was 47.

Harmony House and King's Court were sold as going concern care home sales in April 2020; as these homes traded for the full year to 31 March 2020, we have included these homes in the figures contained in this update. However, they will be removed from the figures (together with the LFL comparatives) when we provide the next update in respect of the quarter to 30 June 2020.

Summary Financial Performance - 12 months to March 2020

The trading results and main KPI's for the twelve months to March 2020 for the 47 Homes open in the year to 31 March 2020 (compared to the 12 months to December 2019) are summarised as follows:

	LFL Adjusted	LFL Adjusted	
	12 months to 31-Dec-19 £'m	12 months to 31-Mar-20 £'m	Variance £'m
Fee Income	69.39	70.11	0.72
Staff Costs	(43.23)	(43.96)	(0.73)
Operating Costs	(3.83)	(3.89)	(0.06)
Indirect Costs	(8.18)	(8.40)	(0.22)
EBITDARM	**14.15**	**13.86**	**(0.29)**
KPIs			
Usable Beds	2,257	2,245	(12)
Average Occupancy	1,873	1,863	(10)
Spot occupancy at period-end	1,828	2,015	187
Average weekly fee	710	720	10
CAPEX	4.49	4.80	0.31
Staff costs as a % of revenue	62.3%	62.7%	(0.4%)

Following the closure of the seven homes in 2019 as detailed above, a number of the loss-making homes have been removed from the trading portfolio. Four homes in the remaining 47 home portfolio were loss making in the twelve months to March 2020; across these four facilities, the gross annual EBITDARM loss was c.£440,000.

Excluding these loss-making homes, the EBITDARM for the remaining 43 homes was c.£14.3 million for the twelve months to March 2020.

Of the annual EBITDARM to 31 March 2020, the two homes sold post quarter end, Harmony House and King's Court, accounted for c.£0.38 million of the total figure.

Overall Outlook

It is hard to predict with certainty the longer-term impact of Covid-19 on the sector and on Larchwood in particular. There is some consensus among operators that the repercussions arising from the Covid19 outbreak will result in the failure of some services.

Logically, the increase in the number of deaths among the elderly population will reduce the demand for services, with poorer homes and those that have experienced the most significant financial hardship and greatest declines in occupancy likely to be the early casualties. Anecdotally, we are hearing from bank contacts that there has already been an increase in the number of operators seeking financial support.

Our current best estimate is that admission rates are unlikely to return to 'normal' levels until the quarter to September 2020 at the earliest.

Larchwood (Northern Ireland Portfolio)

Unaudited trading statement as at 31 March 2020

Introduction

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

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

Summary Financial Performance - 3 months to March 2020

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

	3 mths to 31-Mar-19 £'m	3 mths to 31-Dec-19 £'m	3 mths to 31-Mar-20 £'m	Variance to LFL quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	2.94	3.37	3.35	0.41	(0.02)
Staff Costs	(2.04)	(2.31)	(2.34)	(0.30)	(0.03)
Operating Costs	(0.17)	(0.18)	(0.19)	(0.02)	(0.01)
Indirect Costs	(0.22)	(0.21)	(0.23)	(0.01)	(0.02)
EBITDARM	**0.51**	**0.67**	**0.59**	**0.08**	**(0.08)**
KPIs					
Usable Beds	319	319	319	-	-
Average Occupancy	92.8%	95.6%	96.1%	3.3%	0.5%
Spot occupancy at quarter-end	301	302	313	12	11
Average weekly fee	£771	£842	£842	£71	-
CAPEX (£'m)	0.12	0.10	0.08	(0.04)	(0.02)
Staff costs as a % of revenue	69.3%	68.4%	69.9%	(0.6%)	(1.5%)

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

Overall, EBITDARM for the quarter to 31 March 2020 represented an improvement of c.£80,000 (c.15.7%) on the same quarter in 2019 driven by higher occupancy levels and an increase of c.9.2% in the average weekly fee offsetting the 14.7% increase in staff costs. As with the previous quarters, this increase in average weekly fee has been driven by the annual fee increases that were applied on 1 April 2019 (c.5%) together with the continuing shift towards more complex service users at higher fee rates.

EBITDARM generation for the quarter was a reduction of c.£0.08 million (c.11.9%) on the quarter to 30 December 2019 driven by reduced revenue (as the result of a shorter quarter) a
(partly driven by Covid-19 at the end of quarter) a

-19

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

The first Covid-19 cases were reported in the UK in January 2020 although the virus only materially impacted on the Homes in March 2020.

The Larchwood Homes were amongst the first in Northern Ireland to self-impose a lockdown which ceased access to the Homes for all but staff and essential visitors with effect from 12 March 2020. All annual leave was put on hold and all agency usage was postponed from early April in order to avoid any cross contamination from other care services. A revised overtime rate was introduced following the recent increase to the National Minimum wage to encourage existing staff to take on additional shifts.

Any testing that was required by the Public Health Authority (PHA) was performed by our own staff teams to avoid unnecessary footfall from the Health Trusts within the Homes thus eliminating any further potential spread of the virus.

To date, none of the Homes within the Group have needed to send anyone to hospital with the symptoms of the virus. Furthermore, there has been only 6% of the total current client population, totalling 21 clients, that have been required to be isolated in line with PHA guidelines between 23 March up until 15 May 2020. This included three clients who had tested positive for COVID-19, one from three separate Homes within the Group. These three clients have since recovered well.

There have been zero fatalities from COVID-19 as of 13 May 2020 across both the client and staff population which is pleasing.

In terms of the staff teams, 100 staff members across the Group have been tested, with all 100% of these tests returning with a negative test result. The staff teams across the Group have been superb and exemplary in their dedication and commitment shown to clients and colleagues in extremely difficult circumstances.

To date, only 6 staff members (out of a total staff base of 556) have been furloughed for shielding purposes.

The Department of Health has made temporary additional funding in the form of a one-off sum for the Independent Care Home Sector in 2020/21 in Northern Irela In respect of this additional funding it is expected that funds of £110,000 for the Group will be received during May in line with existing payment processes. This additional income is expected to provide assistance with increased costs associated with the COVID-19 pandemic.

PPE supplies have been provided by the Health Trusts although the Group has purchased additional supplies to ensure that all staff teams are adequately protected to provide the necessary care to clients.

Direct costs have risen, associated with additional cleaning products and equipment, as well as a slight increase in staff costs to cover the additional domestic hours in maintaining the importance of infection control measures.

It is anticipated moving forward, that occupancy levels of new clients may reduce as more families choose to care for their relatives at home. Some relatives have requested a discharge of clients from a number of the Homes following the projections of COVID-19 in the care sector in the media; these requests are being managed on a case by case basis.

There is an expectation that over the short to medium term, once the lockdown restrictions have been lifted, there will be a much greater need for agency usage to allow staff to use their annual leave entitlements and for all staff to reduce their extended overtime hours in assisting with this pandemic and to allow for rest.

The Unions are pushing for further wage increases for care staff and have requested a full review despite the most recent National Minimum Wage increase at 6.2%. It is likely that any review will be rolled out in line with a necessary overhaul of the Social Care System.

Occupancy

Occupancy increased by 11 in the quarter ending on 313 clients (98.1%) as at 31 March. This represented the peak occupancy during the quarter in question.

The average overall occupancy for the quarter of 96.1% represents another excellent result for the Homes with Apple Blossom, Culmore and Melmount Manor at full occupancy at the end of the quarter.

Glebe Brain Injury Unit achieved almost full occupancy for 3 weeks at the end of the quarter while Dunanney peaked at 97.1% in the last week of the quarter. Greenhaw remained static throughout the quarter with Kingsland continuing to fluctuate with admissions and discharges.

Since the end of the quarter, occupancy has dipped, standing at 303 clients (95%) at the end of the first week of May. The Homes remain careful in respect of the admissions that they allow to keep the risk of Covid-19 entering any of the Homes to a minimum. As a result of this, the level of new admissions in recent weeks has not kept pace with the level of discharges or unrelated COVID deaths.

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

Average Weekly Fees

Average weekly fees for the quarter to 31 March 2020 were as follows:

- Nursing £904 (Previous Quarter £903)
- Residential £595 (Previous Quarter £595)
- Overall £842 (Previous Quarter £842)

Overall, the average weekly fee remained level with the previous quarter.

Fee increases on 1 April 2020 were as follows:

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

Given the 6.2% increase in the national Minimum Wage, it had been anticipated that the increases for Nursing rates would have been similar to the rate received for residential rates.

The Proportion of self-funded clients remains the same with approximately 11.5% of beds across the Group being self-funded.

Costs

The single largest cost for the Homes is payroll. Overall staff costs increased c.1.5% in the quarter partly due to higher absenteeism levels (including Covid-19 absenteeism related towards the end of the quarter) and partly due to the fact that March represents the end of the holiday year for the Homes which drives higher agency costs in that month.

Note that, whilst outside the quarter under review, the National Living Wage increased on 1 April 2020 from £8.21 an hour to £8.72 an hour, an increase of c.6.2%. This directly affects c.65% of Larchwood's workforce by number and increases the expectation of non-National Living Wage staff of receiving beyond inflation pay increases in order to maintain pay differentials between staff grades and groups.

Agency costs were up c.21.2% quarter on quarter principally driven by the reasons set out above.

During March 2020, all annual leave was temporarily placed on hold and the staff teams were asked to work overtime to prevent agency usage from contaminating staff and clients from other care establishments. This has been successful as a way of protecting staff and clients from the virus spread, however it is a short-term measure only.

This will have a positive impact on the agency usage for an element of the quarter to June 2020. However, once the lockdown restrictions have been lifted, any savings that have been made in this regard are likely to be offset by the substantial increase in agency usage that is expected, in order to allow staff to take their annual leave entitlement as well as allowing staff to obtain sufficient rest following their overtime hours.

There is a risk that the agencies may increase their rates during this period, due to the anticipated levels of demand.

In the quarter to March 2020, some headway was made in terms of nurse recruitment although care assistant recruitment has remained challenging. Long-term illness absenteeism has been addressed where possible and so new posts have been advertised accordingly. For any new staff commencing employment during this pandemic, a break of 14 days has been required for anyone coming from another care environment. This has delayed recruitment in some areas, although it is beneficial for the Group as a whole at this current time. Short term sickness absence has been a focus recently for obvious reasons.

Operating Costs increased quarter on quarter from c.£6.41 per client day in the quarter to December 2019 to c.£6.76 per client day in the quarter to March 2020. This increase was driven by increased Covid-19 purchases in March of medical supplies and cleaning materials.

Indirect Costs increased c.£13,000 quarter on quarter driven principally by the seasonal effect on the utility costs of the Homes.

Compliance and Quality

A total of eight regulatory inspections took place in the quarter with two inspections occurring in Greenhaw.

A Care Inspection in Apple Blossom Lodge identified good practice in governance arrangements, culture and ethos, record keeping, infection prevention and control, staffing and recruitment management with no areas for improvement stated.

A follow up care inspection was conducted in Melmount Manor. Nine of the previous areas for improvement were assessed as met and three as partially met which were restated.

A care inspection took place in the Sperrins Residential Unit, within Melmount Manor and no areas for improvement were noted.

A care inspection in Culmore Manor assessed seven previous areas for improvement as compliant and stated 6 further areas for improvement.

A follow up inspection took place in Glebe Care Centre which assessed twelve previous areas for improvement as met and issued just two further areas for improvement.

A care inspection was conducted in Greenhaw Lodge. This inspection focused on areas of care, pharmacy and estates management. All areas from the previous inspection with the exception of pharmacy were assessed as met. This led to a further pharmacy inspection in Greenhaw Lodge. As a result of this inspection the Home was issued with two failures to comply (FTC). Significant improvements have been made to address these areas and the Regulator has now confirmed that Greenhaw Lodge is fully compliant in this regard.

A care inspection was also completed in Dunanney Care Centre. Four previous areas for improvement were assessed as met and two were restated for the second time. Two further actions were stated for the first time.

Capex

In the quarter to March 2021, c.£80,000 was spent on Capex.

Over the past 12 months, c.£2.300 has been spent on average per effective bed across the Homes.

<u>Summary Financial Performance - 12 months to March 2020</u>

The trading results and main KPI's for the twelve months to March 2020 for the Homes (compared to the twelve months to December 2019) are summarised as follows:

	12 mths to 31-Dec-19 £'m	12 mths to 31-Mar-20 £'m	Variance £'m
Fee Income	12.92	13.33	0.41
Staff Costs	(8.89)	(9.19)	(0.30)
Operating Costs	(0.70)	(0.72)	(0.02)
Indirect Costs	(0.82)	(0.83)	(0.01)
EBITDARM	**2.51**	**2.59**	**0.08**
KPIs			
Usable Beds	319	319	-
Average Occupancy	94.7%	95.5%	0.8%
Spot occupancy at period-end	302	313	11
Average weekly fee	£821	£838	£17
CAPEX (£'m)	0.78	0.74	(0.04)
Staff costs as a % of revenue	68.7%	68.9%	(0.2%)

The EBITDARM generation in the twelve months to March 2020 represents 19.5% of turnover (in line with the figure for the twelve months to December 2019). On a home-by-home basis, EBITDARM generation ranged from 8.7% to 34.6% in the twelve months to March 2020.

Note that excluded from the figures within this trading update is provision for any recompense for the three rooms that have been out of action at Melmount Manor since the piping leaks were discovered at the home (September 2017). The Business Interruption Claim in respect of this issue has now been settled with insurers who agreed a claim of c.£0.1 million per annum. This settlement is not included in the figures detailed in this update and thus will increase the annual EBITDARM run rate detailed above by c. £0.05 million for the year to March 2020.

Note that these works were completed at the end of September 2019.

<u>Overall Outlook</u>

With the current pandemic, progress of the virus is being monitored on a daily basis by the management team. It will take a while for the Social Care Sector to recover from this crisis and the bad publicity that Care Homes have received in the media and press. This will have a knock-on effect in terms of occupancy levels for the short to medium term, despite Larchwood Care NI having performed well in keeping the virus to an absolu llenging times.

It is unlikely that lockdown restrictions will be lifted prior to the early part of June. At this stage, it is thought that agency usage will be in high demand thereafter, to allow staff that have worked high levels of overtime in providing necessary care to rest and recuperate and enjoy their annual leave entitlement.

Scrutiny from the Regulator will become more intense as questions are being asked of the sector about how the spread of the virus occurred in some care homes. This has been an area of intense media focus.

In relation to staffing, recruitment may become more challenging in attracting staff to the care sector. However, the negative effect that this pandemic has had on the hospitality sector (which is the main competitor for care staff) may provide a benefit in the short-term.

Increased indirect costs are anticipated moving forward, as cleaning costs are likely to continue in order to maintain high standards of infection control required to prevent future spread. Although they may reduce slightly from current levels, it is expected that such costs are unlikely to return to normal levels for some time.

A long overdue overhaul of the entire Social Care System which has been delayed since 2010, is urgently needed to provide confidence in the sector moving forward.

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