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

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

Date:- 11 August 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 18 May 2023 (the "**18 May Announcement"**).

In the 18 May Announcement, the Special Servicer affirmed to Noteholders that, among other things, that thirteen trading care homes and six 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 August 2023 (the "**1 August Announcement**").

In the 1 August 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 £1,200,000.

Update on the Strategy for the Portfolio

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

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

Currently, eighteen trading care homes and five 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.

Based on the disposal process to date and the currently prevailing market and investor sentiment, the availability of debt and the regulatory approval timeframes being seen, it is estimated that the portfolio will be exited in full by November 2024.

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 five closed properties remaining namely:

a) three (Copper Beeches, Heathmount and Silver Birches, situated on the same site) and which are currently under offer and in the legal process.

b) a closed care home located in Huddersfield that was deemed uneconomic to continue operating and which is currently under offer and in the legal process.

c) a closed care home located near Glasgow that was deemed uneconomic to continue operating and which 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	4	4	100%	4	4	0
“	Scotland	1	1	100%	1	1	0
	Total	5	5	100%	5	5	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 two 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	15	7	47%	4	4	0
“	Scotland	4	4	100%	0	0	0
“	NI	7	7	100%	7	7	0
	Total	26	18	69%	11	11	0

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 likely to be 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 disposal and thereafter placed with a sales agent for marketing.

UK-mainland 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, two trading care homes located in England and the four remaining trading care homes located in Scotland have been selected for disposal and a sales agent has been engaged to undertake the marketing for sale of the homes, which commenced in July 2023.

Ahead of the end of the summer period, the Special Servicer together with the Asset Manager and the Operator, will identify the next batch of care homes for disposal, toward launching such sales processes in Q4.

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

Northern Ireland portfolio

Following on from the previous aborted sales process in 2021 (disclosed in previous updates) and 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.

As part of the marketing process, the sales agent pursued some interest that had previously been expressed in the portfolio and a preferred bidder has been selected to purchase the portfolio, with the transaction in the legal process.

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.

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	4	100%	4	4	0
“	Scotland	1	1	100%	1	1	0
		5	5	100%	5	5	0
Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	15	7	47%	4	4	0
“	Scotland	4	4	100%	0	0	0
“	NI	7	7	100%	7	7	0
	Total	26	18	69%	11	11	0
	Total	31	23	74%	16	16	0

Trading Update

Similar to the 18 May 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 18 May Announcement, following the restructure & restatement of the Ashbourne Whole Loan in December 2013, a re-ordering of the priority of payments was concluded.

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

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

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

All the data therein is as at 18 July 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	205,198.20	205,198.20
(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	205,198.20

4th	In or towards payment pro-rata of:		
(A) *	interest due but unpaid on the Outstanding Priority A Interest Advance	Nil	205,198.20
(B) *	interest due but unpaid on the Outstanding Priority A Amortisation Advance	3,828	209,026.20
(C)	interest due but unpaid on the Outstanding Priority A Hedging Advance; and	Nil	209,026.20
(D)	interest due but unpaid on the Outstanding LPI Hedging Advance	Nil	209,026.20
5th	In or towards payment pro-rata of:		
(A) *	the Outstanding Priority A Interest Advance	Nil	209,026.20
(B)	the Outstanding Priority A Hedging Advance; and	Nil	209,026.20
(C)	the Outstanding LPI Hedging Advance	Nil	209,026.20
6th	In or towards payment pro-rata of:		
(A) *	the Outstanding Priority A Amortisation Advance	249,328.48	458,354.68
(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	91,323,643.16	91,781,997.84
(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	91,781,997.84

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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(in its capacity as Trustee)

Date: 11 August 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 30 June 2023

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 18 May 2023.

In the quarter to 30th June 2023 no homes were sold or closed.

The results and KPIs for previously sold or closed homes have been excluded from the figures in this update, therefore all results and KPIs are presented on a like for like (LFL) basis for the same 19 homes as in the May update.

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 June 2023

The trading results and main KPI's for the three months to June 2023 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 30-Jun-22 £'m	3 months to 31-Mar-23 £'m	3 months to 30-Jun-23 £'m	£'m	£'m
Fee Income	9.48	9.58	10.98	1.50	1.4
Staff Costs	(6.12)	(6.56)	(6.88)	(0.76)	(0.32)
Operating Costs	(0.47)	(0.53)	(0.59)	(0.12)	(0.06)
Indirect Costs	(1.24)	(1.60)	(1.51)	(0.27)	0.09
EBITDARM	**1.65**	**0.89**	**2.00**	**0.35**	**1.11**
KPIs					
Usable Beds	946	948	948	2	-
Average occupancy	764	763	785	21	22
Average occupancy (%)	80.8%	80.5%	82.8%	2.0%	2.3%
Spot occupancy at period-end	782	767	795	13	28
Spot occupancy at period-end (%)	82.7%	80.9%	83.9%	1.2%	3.0%
Average weekly fee	936	976	1,076	140	100
CAPEX	0.64	0.67	0.67	(0.03)	-
Staff costs as a % of Fee Income	64.6%	68.5%	62.7%	1.9%	5.8%

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'.

EBITDARM increased by c.£1.11million (124.7%) quarter-on-quarter principally as a result of increased Occupancy, Income and reduced Indirect Costs (Mainly Heat & Light). These factors improved EBITDARM over the same quarter in 2022 by £0.35million.

Average weekly fee has increased by £100 (10.2%); occupancy has increased quarter-on-quarter.

Staffing costs have increased by c.£0.32m (4.9%) as have Direct costs by c. £0.06m (11.3%) which, when combined, adversely impacts EBITDARM by c.£0.38million.

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

Infectious Diseases

We have for a considerable period now been operating in a manner that manages Covid-19 in the manner of other infectious diseases. As routine testing for Covid-19 has now ceased, we no longer collect Covid-19 specific data. As would be expected in the spring and early summer, the incidence of respiratory infections is low and there is no information that suggests this will not continue until the normal anticipated increase in late October.

The death rate has declined in this period as would be expected. It continues to follow the trend of the last quarter running significantly below 2020 levels and generally tracking those of 2022.

In line with our main competitors, we have now reverted to paying SSP for staff who are self-isolating and will continue to keep this position under monthly review.

Management control of infection will remain a high priority and the homes continue to perform well as judged by internal and external audit score.

Occupancy

On a LFL basis for the 19 homes in the portfolio as at 30 June 2023, average occupancy for the quarter increased by 22 clients compared to the quarter to 31 March 2023.

During Q2 2023, there was a 12% decrease in total website visitors compared to Q1 2023. Although this follows the seasonal trend, it is a larger decrease than expected. However, three high-traffic care home pages were removed from the website towards the end of Q1 which had an impact on the Q2 total figures. The number of people reached by the homes' Facebook pages increased by 40% quarter-on-quarter, with a 4% increase in engagements on our posts. Facebook video views also increased by 58%. We welcomed a new marketing executive to the team in mid-June who has been working closely with the homes to improve the quality and output of their Facebook content and while also working to improve the Larchwood brand social media channels.

Average Weekly Fees

Average weekly fees for the quarter to 30 June 2023 were £1,076 compared to the previous quarter average of £976, an increase of £100 per week (10.2%).

Fee increases for all clients generally occur on 1 April each year. The status of the increases for 2023 is as follows:

- English Local Authorities' (LA's) –Annual fee reviews have been formally notified by the majority of LA's. To date, 11 out of 13 English LA's, where we have a significant level of commissioned beds, have announced an uplift in fee rates, these rates apply to c.64% of Larchwood's main LA clients.

- The average increase to date has been c.9.43% for nursing rates and c.9.41% for residential rates against the budget of 4.0% and 3.7% respectively.

Scottish LA's – One rate covers the whole of Scotland and has been agreed centrally at 6.0%. Agreement was only reached in July of this year and the impact of this uplift will only be recognised in the July results when it will include the uplift backdated to 10 April 2023, the date from which it is effective.

- Self-funder fee increases averaged c.12%. The number of clients paying top-ups has increased from 16 to 27 over the quarter to 30 June 2023. In the same period the number of self-funders increased from 239 clients to 243 clients

Costs

Overall staff costs decreased as a percentage of fee income by c.5.8% quarter-on-quarter, mainly due to the fee income increase.

As indicated above, the Group opted to pay staff who are required to isolate for Covid-19 reasons during this period.

Agency usage in the quarter averaged c.4,118 hours per week, a decrease of c.13.4% on the previous quarter. As mentioned in the previous quarter's report, agency use has reduced. This is due to concentrated efforts at increasing employment which has been assisted by the Home Office granting the group a sponsorship licence towards the end of 2022. There are still significant vacancies within the Homes and the continued reduction by the recruitment of new staff is challenging with a shortage of available candidates in many areas. Home by home review of pay and terms and conditions continues to be regularly benchmarked against competitors and revised if appropriate. Improvements in staff engagement and wellbeing are beginning to yield positive results with staff turnover continuing to decline albeit slowly.

Operating Costs increased by c.11.3% from the previous quarter, rising to c.£8.30 per client day. This was mainly driven by the inflationary pressures that are being experienced on food and other direct costs.

Indirect Costs decreased by c.£90k quarter-on-quarter.

Compliance

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

England:

Grade	31-Jan-22	31-May-22	24-Jul-22	01-Nov-22	05-Feb-23	23-Apr-23	23-Jul-23
Outstanding	1	1	1	1	1	-	-
Good	20	20	19	16	16	14	14
Requires Improvement	5	3	2	3	3	1	1
Inadequate	-	-	-	-	-	-	-
Total	26	24	22	20	20	15	15
Compliant %	80.8%	87.5%	90.9%	85.0%	85.0%	93.3%	93.3%
Note: Homes are removed from the above analysis as and when they are closed or sold.							

Scotland:

Average Grade	31-Jan-22	10-May-22	24-Jul-22	01-Nov-22	05-Feb-23	23-Apr-23	23-Jul-23
6	-	-	-	-	-	-	-
5	1	1	1	1	1	1	1
4	4	3	3	2	1	1	1
3	1	1	1	1	2	2	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.							

At 23 July 2023, 14 (93.3%) of the 15 English homes (those regulated by the CQC) were rated 'Good'.

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

In respect of the Scottish homes, Eastwood Court was inspected in February 2023. Whilst the grades remained the same as at the previous inspection, the two breaches of regulation were met and removed.

It was anticipated that the Care Inspectorate Scotland would reinspect Cranford in this trading period, however, this remains outstanding. The local commissioning and adult protection teams have visited and have provided positive reports.

Capex

During the quarter to June 2023, total Capex of c.£665,000 was invested into the Homes. For the twelve months to 30 June 2023, Capex on the 19 homes totalled c.£2.3 million.

Based upon the average number of usable beds (948) in the year to 30 June 2023, this equates to a run-rate of c.£2,426 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. In the 9 months to June 2023 orders placed against the Budget for 19 homes equated to 65% of the budget.

The Capex detailed above was in addition to the c.£1,290 per usable bed spent on planned and preventative maintenance and general repairs in the year to 30 June 2023.

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
- Mountwood was sold as a closed home in July 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
- Badgers Wood, Belmont and The Chanters were sold as going concerns in March 2023
- Ravenstone was sold as a closed home in August 2023

Therefore, as at 30 June 2023, the number of homes that were open and trading normally was 19. Unless stated otherwise, the results and KPIs in this update only cover these 19 homes; they do not include any of the sold or closing homes.

Summary Financial Performance – 12 months to June 2023

The trading results and main KPI's for the twelve months to June 2023 for the 19 homes open in the year to 30 June 2023 (compared to the year to March 2023) are summarised as follows:

	LFL Adjusted	LFL Adjusted	Variance
	12 months to 31-Mar-23 £'m	12 months to 30-Jun-23 £'m	£'m
Fee Income	38.73	40.24	1.51
Staff Costs	(25.58)	(26.33)	(0.75)
Operating Costs	(2.05)	(2.18)	(0.13)
Indirect Costs	(5.40)	(5.68)	(0.28)
EBITDARM	**5.70**	**6.05**	**0.35**
KPIs			
Usable Beds	946	946	-
Average occupancy	779	778	(1)
Average occupancy (%)	82.3%	82.2%	(0.1%)
Spot occupancy at period-end	767	795	28
Spot occupancy at period-end (%)	81.1%	84.0%	2.9%
Average weekly fee	953	991	38
CAPEX	2.29	2.32	0.03
Staff costs as a % of Fee Income	66.0%	65.4%	0.6%

As with the table on page one, while some minimal State funding has been recognised by the Group in respect of Covid-19 financial assistance up to 30 June 2023, this funding has been excluded from the figures in the table above.

No homes in the 19-home portfolio were loss-making in the twelve months to June 2023 before accounting for any Covid-19 financial assistance across these facilities.

The EBITDARM for the 19 homes (including Covid-19 support) was c.£6.05 million for the twelve months to June 2023.

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. Local Authorities 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. Recruitment and retention of staff continues to be a pressure on the business, however, green shoots of recovery are now being seen.

Inflation continues to rise negatively with RPI being up to 14.2% in the last 12 months, and currently standing at 10.7%. This is impacting the overall cost base of the business and making internal decisions on savings and efficiencies more difficult. However, pressure on margins will continue unless the Fair Cost of Care exercise delivers a significant increase in LA and NHS fee rates. Agency costs remain high and, in our opinion, higher pay, flexible working and less accountability and responsibility on agency workers, 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 substantial pressure on indirect costs with most cost lines seeing significant inflationary increases.

Heat & light costs increased by unprecedented amounts in businesses during 2022. Energy suppliers were increasing business prices by far more than the prices for consumers due to the lack of restrictions and the Russia Ukraine conflict. Recently prices have stabilised and, in some cases, fallen, however, Government support to businesses lasted until March 2023 and this has led to more uncertainty, although it is not anticipated that this will have a material impact on the homes' costs.

The Group has not suffered the price hikes some providers are seeing. Although the contracts are on an individual home basis, the Group was able to secure energy prices under contract prior to the material increases experienced over the last year. This should protect many of the homes from any significant increases in gas prices, but electricity prices may increase during 2023 as all such contracts expired in March 2023.

As referred above, LA's have provided higher percentage fee rate rises across most categories of care than has been seen in recent times. It should, however, be noted that despite this welcome increase, there remain many LA's where the base rate is below the fair cost care. The Head of Commissioning and Governance is working proactively on sustainable fee levels and new pathways of care that support current national and local demand and strategies for satisfying that demand.

There is evidence that the CQC is now focussed on an approach that focuses on outcomes that are achieved for people that need support rather than on the detail of the inputs of care. This is leading to a less confrontational situation where we are all looking at ways to improve outcomes and manage risk and are more willing to share information and ideas. The Group now has only one service that is rated RI with the remainder being rated as Good. The CI in Scotland continue to inspect on a risk basis only.

Larchwood (Northern Ireland Portfolio)

Unaudited trading statement as at 30th June 2023

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 18 May 2023.

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.

Summary Financial Performance – 3 months to 30 June 2023

The trading results and main KPIs for the three months to 30th June 2023 are summarised as follows:

	3 mths to 30-06-22 £'m	3 mths to 31-03-23 £'m	3 mths to 30-06-23 £'m	Variance to LFL quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	4.16	4.05	4.59	0.43	0.54
Other Income	-	-	-	-	-
Staff Costs	(2.62)	(2.76)	(2.98)	(0.36)	(0.22)
Operating Costs	(0.21)	(0.22)	(0.23)	(0.02)	(0.01)
Indirect Costs	(0.34)	(0.37)	(0.32)	0.02	0.05
EBITDARM	**0.99**	**0.70**	**1.06**	**0.07**	**0.36**
KPIs					
Usable Beds – average for quarter	323	323	323	-	-
Usable Beds – at quarter-end	323	323	323	-	-
Average Occupancy for quarter	313	319	317	4	(2)
Average Occupancy for quarter %	96.9%	98.8%	98.1%	1.2%	(0.7%)
Spot occupancy at quarter-end	314	318	321	7	3
Spot occupancy at quarter-end %	97.2%	98.5%	99.4%	2.2%	0.9%
Average weekly fee	£1,023	£987	£1,114	£91	£127
CAPEX (£'m)	0.05	0.11	0.17	0.12	0.06
Staff costs as a % of Fee Income	62.9%	68.1%	64.9%	2%	(3.2%)

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

Overall, EBITDARM for the quarter to 30 June 2023 represented an increase of c.£360,000 from the previous quarter driven by:

- An increase of c £540,000 in Fee Income due to increased fee rates effective 1st April 2023 and £91,000 financial support received across April and May 2023.
- An increase of c.£220,000 in staff costs as a result of staff pay rates increasing 1st April 2023 in line with minimum wage.
- An increase of c.£10,000 in Operating Costs as a result of inflationary pressure on provisions, medical supplies and incontinence products.
- A decrease of c.£50,000 in indirect costs, mainly in utilities due to seasonal changes.

There was c.£91,000 received across April and May 2023 from the Health Trusts for inescapable cost pressures. This is a non-recurring payment to address the costs in the independent care home sector for the period 2022-2023.

Covid-19

Covid-19 numbers in the period to June 2023 have reduced to an all-time low with insignificant impact upon Homes, residents and staff. Covid-19 restrictions have been fully relaxed and whilst homes remain vigilant for signs of respiratory illness which may be related to Covid-19 infection, visiting has returned to pre-pandemic arrangements and routine testing has ceased. Homes remain ready to step up arrangements if there are further episodes of Covid-19 spread either in the local community, hospitals or within resident or staffing groups.

Occupancy

Across the quarter, average occupancy decreased by 2 clients, ending the quarter at 317 clients equivalent to 98.1% of effective beds. This has shown an increase of 1.2% increase in average occupancy stats, compared to the same quarter in the previous year.

Occupancy remained high throughout the three months of the quarter, with demand for Larchwood Care NI beds remaining strong. With the expected April increase in commissioned funding, average weekly fees increased within this period, although some of these were offset against higher staffing, utility and provisions costs.

Post quarter end, occupancy has continued to improve in a positive trajectory with 323 clients (100%) across the Homes on 24 July 2023. Demand for specialist beds in the quarter remains high with the needs of those with complex presentations representing many referrals to all homes.

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

At the end of the quarter 5 homes were presented with a Top20 Award within Northern Ireland 2 homes were within the Top 30 homes listed on CareHome.co.uk

Average Weekly Fees

Average weekly fees for the quarter to 30 June 2023 were as follows:

- Nursing £1,159 (Previous Quarter £1,051)
- Residential £734 (Previous Quarter £671)
- Overall £1,114 (Previous Quarter £987)

The overall average weekly fee for the quarter was £1,114 which was an increase of £127 on the previous quarter.

The Department of Health announced the following Tariff Uplifts for 2023/24 which took effect on 1 April 2023:

- Nursing rates across all five Trust areas increased by 5.38%
- Residential rates across all five Trust areas increased by 7.47%

There was an additional increase of 0.85% for nursing rates and 0.57% for residential rates, this was backdated from April 2022 and paid in May 2023.

The proportion of self-funded clients remains the same with approximately 4% 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 increased by c.£220,000 on the previous quarter, mainly due to the increase in pay rates following the April 2023 Minimum Wage increases. These increases were applied to all grades of staff, ensuring pay differentials remain.

Agency costs for the quarter reduced by 0.5% upon the previous quarter with monthly usage for the quarter to June 2023 averaging at 8.2%. However, during this quarter the agency spend reduced from 10.3% in April 23, to 8% in May 23 and finally to 6.4% in June 23, which was pleasing. YTD agency costs are 7.6%.

Recruitment across all grades of staff throughout the Group has been very successful, as this has been a key area of focus for the management team. Staff retention has been key and short-term absence at individual care home level has been very well managed with a reduction from 3.2% in the quarter to March 2023, to 2.84% in this quarter to June 2023.

Operating Costs were c.£8.24 per resident day in the quarter to June 2023, a 0.05% increase on the quarter to March 2023.

Overheads were c.£50,000 less than the previous quarter mainly due to the reduction in Utility costs which would normally be anticipated approaching the summer months.

Compliance and Quality

With the new inspection year commencing in April 2023, four inspections occurred at three Homes in this quarter.

An unannounced inspection by the care team was completed in Dunanney in April 2023. This inspection continued with the previously positive feedback the Home had received in June 2022 and only one area for improvement was issued.

In the same month of April an unannounced care inspection was undertaken in Kingsland Care Centre. This inspection praised the care within the Home with residents reporting a positive living experience. Three areas for improvement were stated.

A care inspection also occurred in Apple Blossom Lodge which determined areas previously identified for improvement, are now assessed as compliant. The living experience in the Home was considered excellent by residents, with positive comments from all residents and staff. Two areas for improvement were noted.

A care inspection and a pharmacy inspection were conducted in Melmount Manor in May 23. The report for these two inspections was issued as a joint report. In respect of care, two previously issued areas for improvement were assessed as met. Staff interactions and the quality of care was assessed as being of a very high standard. Documentation was reviewed and found to meet best practice standards and overall governance and management was positively reported on. Two areas for improvement were noted. Overall compliance in the management of medicines was found to be very positive. Pharmacy inspectors issued two areas for improvement.

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 June 2023, c.£168,525 was spent on Capex, an increase of c£60k on the previous quarter.

A full plant room upgrade has occurred at Culmore Manor which absorbed approximately 80% of this quarter spend. In addition, furniture has been upgraded in Kingsland, Dunanney and Glebe and additional flooring works have been completed at Apple Blossom Lodge. The Homes are in very good order.

Over the past 12 months, c.£1,600 has been spent on average per effective bed across the Homes. This is in addition to the c.£450 spent per effective bed in the past 12 months on repairs and maintenance to the Homes.

<u>Summary Financial Performance – 12 months to June 2023</u>

The trading results and main KPI's for the twelve months to 30 June 2023 for the Homes (compared to the twelve months to 31 March 2023) are summarised as follows:

	12 mths to 31-Mar-23 £'m	12 mths to 30-Jun-23 £'m	Variance £'m
Fee Income	16.55	16.98	0.43
Other Income	0.06	0.06	-
Staff Costs	(10.85)	(11.21)	(0.36)
Operating Costs	(0.88)	(0.91)	(0.03)
Indirect Costs	(1.42)	(1.40)	0.02
EBITDARM	**3.46**	**3.52**	**0.06**
KPIs			
Usable Beds – average for year	323	323	-
Usable Beds – at year-end	323	323	-
Average Occupancy for year	317	318	1
Average Occupancy for year %	98.1%	98.5%	0.4%
Spot occupancy at year-end	318	321	3
Spot occupancy at year-end %	98.5%	99.4%	0.9%
Average weekly fee	£1,002	£1,024	£22
CAPEX (£'m)	0.39	0.51	0.12
Staff costs as a % of revenue	65.6%	66%	0.4%

The EBITDARM generation in the twelve months to June 2023 represents c.20.7% of turnover (a decrease of 0.2% when compared to the twelve months to March 2023). On a home-by-home basis, EBITDARM generation ranged from 10.6% to 35.1% in the twelve months to June 2023.

Overall Outlook

Inflationary pressures on provisions and supplies are continuing. There is an expectation that some pricing on provisions is due to decrease over the next quarter, however, the recent Russian attacks on grain supplies in key Ukrainian cities and ports could potentially impact this proposed reduction.

Recruitment has been very successful over the last quarter with very few vacancies remaining. There was a great response to all recently advertised posts. The Larchwood brand is a significant factor in this regard, as staff want to work in care homes that are perceived in the local community as 'best in class'.

The challenges within the NHS are becoming more and more evident and this is having an effect on services locally. Such services are further impacted by the lack of decision making required from local government, which is unfortunately absent in Northern Ireland. Partnership working with the Health Trusts is particularly important at this time.