Spire Healthcare



2014 Half-Year Results Presentation

Thursday 28th August 2014

Presentation Team

Chief Executive Officer

Rob Roger

- CEO of Spire since May 2011, previously CFO from 2007
- Formerly CFO of Tussauds Group, where he successfully grew EBITDA from £34m to £120m and sold the company to Merlin Entertainments Group
- Previously CFO of First Choice and Pizza Hut France

Chief Financial Officer

Simon Gordon

- Joined Spire in July 2011 after 8 years as Group Finance Director of Virgin Active
- During his time at Virgin Active the business grew from break-even to £150m EBITDA operating in 5 countries

H1 Key Highlights – Financial

- Revenue increased 10.5% to £417.2m
- Growth in all payor categories: PMI, Self-Pay, NHS
- In-patient & day case volumes up 9.2%
- Adjusted EBITDA up 9.3% (£79.9m) (1)
- Adjusted operating profit up 7.9% (£57.3m) (2)
- PF Adj. EPS of 8.43p (2)(3)

✓ **H1 Performance in-line with expectations**

Note

1) Operating profit, adjusted to add back comparable rent adjustments, depreciation, amortisation and exceptional items, referred to hereafter as "Adjusted EBITDA".
2) Adjusted for business reorganisation, corporate restructuring and regulatory & governance costs totalling £11.1m.
3) Additional adjustments removing finance costs in the period relating to shareholder loans capitalised on Admission.

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H1 Key Highlights – Operational

- Acquisition of St. Anthony’s hospital
- Bristol radiotherapy centre opened and reached breakeven EBITDA within two months
- Cardiac catheterisation lab in Cardiff completed
- H1 capacity utilisation at 64% (+4%)
- Two theatre developments to be delivered in H2 2014

✓ Good start to H2, including a successful listing on the LSE

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Financial Review

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Income Statement – Positive Growth

Key Highlights

- Strong revenue growth across all payor categories
- Adjusted EBITDA up 9.3%
- Adj. Operating profit up 7.9%
- Growth impacted by £3.7m increase in rental costs following 2013 sale & leaseback
- Pro-forma adj. EPS of 8.43p (1)
- Finance costs reduced by 10.3% due to reductions in indebtedness

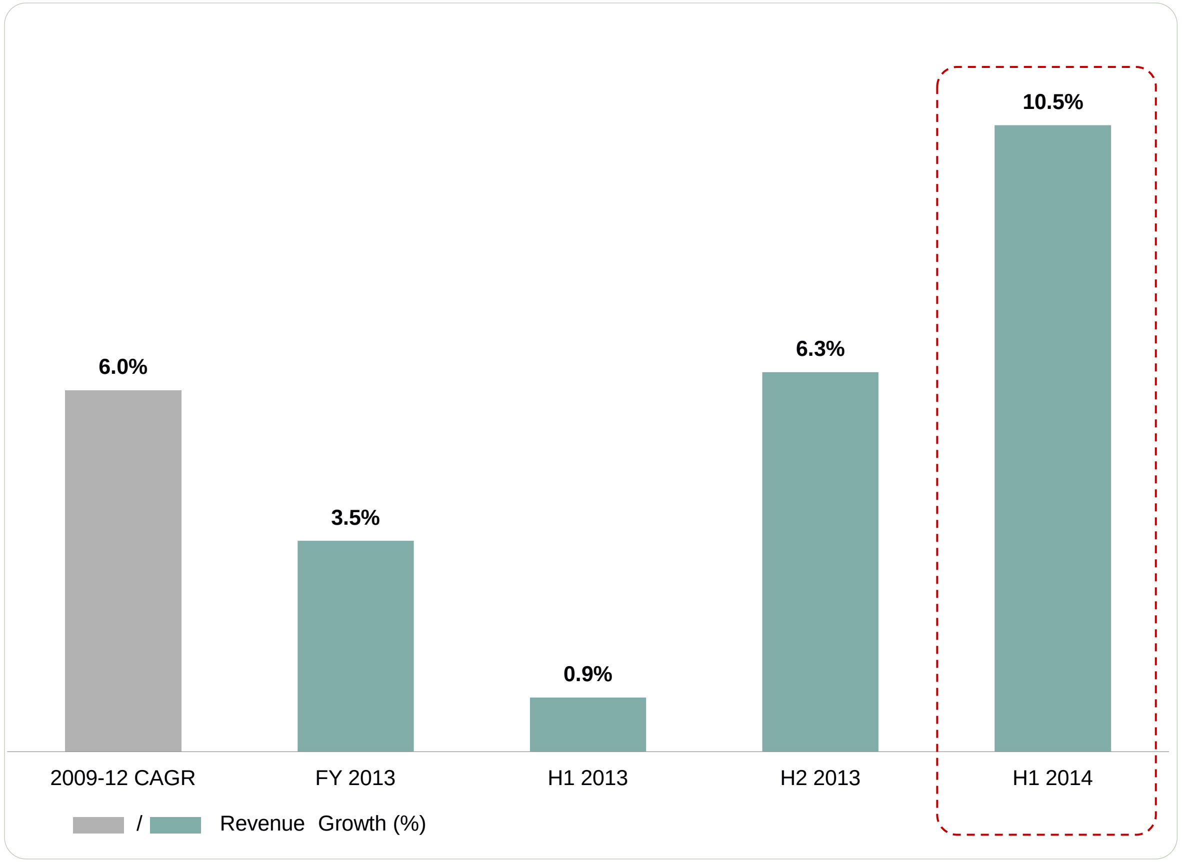
Six months ended 30/06/2014

(£ million)	2014 *Unaudited*	2013 *Unaudited*	% Change
Revenue	**417.2**	**377.5**	***10.5%***
Cost of sales	(210.2)	(186.3)	*12.8%*
Gross profit	207.0	191.2	*8.3%*
Gross margin	*49.6%*	*50.6%*	*(1.0%)*
Other operating costs	(160.8)	(143.5)	*12.1%*
Exceptional items included within other operating costs	(11.1)	(5.4)	*105.6%*
Adj. Operating profit before exceptional items	**57.3**	**53.1**	***7.9%***
Adj. Operating margin	*13.7%*	*14.1%*	*(0.3%)*
(Loss)/profit for the period	**(7.8)**	**148.5**	***n.m.***
Adjusted EBITDA	**79.9**	**73.1**	**9.3%**

Note
1) Calculated as pro-forma profit after tax divided by the number of Ordinary Shares in issue on Admission.

Continued Top-Line Momentum

Strong Recent Revenue Growth...



...Across All Payor Categories

Revenue Growth

PMI	H1 2014	2.5%
	H2 2013	1.6%
	H1 2013	(1.6%)
Self Pay	H1 2014	8.9%
	H2 2013	10.9%
	H1 2013	5.0%
NHS	H1 2014	29.2%
	H2 2013	14.1%
	H1 2013	4.1%

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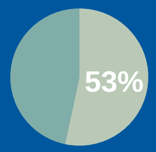
Payor Highlights – PMI

PMI



H1 2014 Revenues [(1)]

- Revenues up by 2.5% to £214.5m
- Volumes flat at c.62,100
- Rates up by 1.7%

Day Case

- 73.4% of total discharges
- Less complex than in previous year including push into ophthalmology
- Rate increase positive but sub-inflationary

In-Patient

- Strong rate growth ahead of inflation
- Driven by continued operational and capital investment
- Higher complexity of case-load

Out-Patient

- Revenues up by 4.1%
- Investment in facilities and technology driving work from theatre

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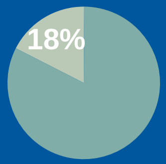
Note

1) Excludes other revenues.

Payor Highlights – Self Pay & NHS

Self Pay

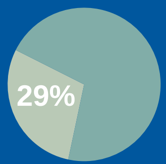


- Revenues up 8.9%
- Volumes up 10.1%

H1 2014 Revenues (1)

- Rates declined by 1.0%
- Early 2013 impacted by DePuy hip revision procedures artificially increasing rates masking positive rates improvement in underlying recurring case mix
- Out-patient revenues up 8.9% driven by increase in minor procedures

NHS



- Revenues up 29.2%
- Volumes up 24.4%

H1 2014 Revenues (1)

- Rates up by 2.7%
- NHS tariff reductions of 2% to 3% on average
- Out-patient revenues up 37.3% driven by increase in fees for consultations

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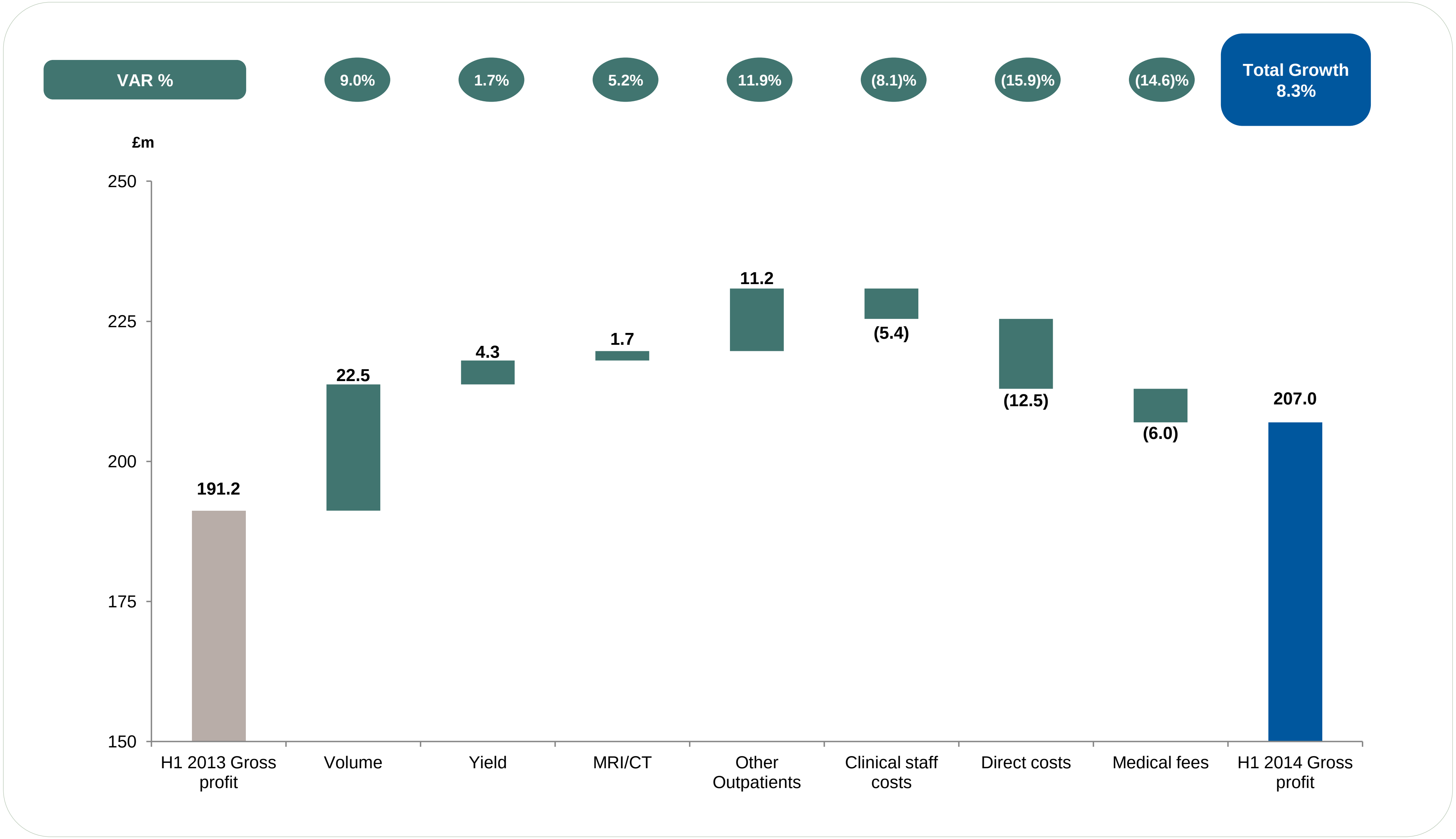
Note
1) Excludes other revenues.

Gross Profit Growth Breakdown



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Operating Costs

	£m	% 2014 Revenues
2013 H1 Other Operating Costs	**143.5**	**34.4%**
Movements in the Period:		
Exceptional Items	5.6	1.3%
Rent	3.7	0.9%
St. Anthony's and Radiotherapy	1.2	0.3%
Underlying Operating Cost Increase	6.8	1.6%
2014 H1 Other Operating Costs	**160.8**	**38.5%**

Positive Earnings Momentum

Key Highlights

- Strong Adjusted EBITDA growth of 9.3%
- Rent increased by 14.2% to £29.8m
- Cost of sales increased by 12.8%, reducing gross margin to 49.6% (50.6% H1 2013), driven by reduction in NHS tariff and higher % of NHS mix
- Adjusted EBITDA margin of 19.2%
- Exceptional items of £11.1m include partial accrual for sale of Group
- Further exceptional costs related to the IPO will be recognised in H2 2014

Adjusted EBITDA

Six months ended 30/06/2014

	2014	2013	% Change
	Unaudited	*Unaudited*	
	£m	*£m*	
Operating Profit	46.2	47.7	(3.1%)
Exceptional items	11.1	5.4	105.6%
Operating profit before exceptional items	**57.3**	**53.1**	**7.9%**
Depreciation	22.6	22.9	(1.3%)
EBITDA	**79.9**	**76.0**	**5.1%**
Comparator rent adjustments			
Pro-rata impact of 2013 Freehold Sale	-	(2.2)	(100.0%)
Washington freehold sale subject to lease	-	(0.7)	(100.0%)
Adjusted EBITDA	**79.9**	**73.1**	**9.3%**
% Margin	*19.2%*	*19.4%*	

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Strong Cash Flow Generation with High Cash Conversion

Key Highlights

- Positive operating cash flow of £71.0m
- Cash conversion of 88.9% (H1 2013: 37.9%)
- Significant improvement in working capital position
- Excluding acquisition of St. Anthony's, PP&E spend was £33.9m (Including St. Anthony's acquisition - £71.9m)
- Sale of freehold in Spire Washington hospital generated £32.2m of proceeds

Six months ended 30/06/2014

(£ million)	2014 *Unaudited*	2013 *Unaudited*	% Change
Net cash from operating activities	**71.0**	**28.8**	***146.5%***
Of which:			
(Loss) / profit before taxation	(1.7)	43.8	*(103.9%)*
Movements in working capital:			
Increase in trade and other receivables	(5.5)	(24.1)	*(77.2%)*
Decrease in inventories	1.3	1.2	*8.3%*
Increase/(decrease) in trade and other payables	3.7	(18.4)	*(120.1%)*
Increase/(decrease) in provisions	2.7	(0.5)	*(640.0%)*
Cash flows from investing activities			
Acquisition of group undertakings	(38.0)	–	*n.a.*
Purchase of property, plant and equipment	(33.9)	(17.8)	*90.4%*
Proceeds from disposal of property, plant and equipment	32.2	701.9	*(95.4%)*
Interest received	0.1	0.1	*0.0%*
Net cash generated from / (used in) investing activities	**(39.6)**	**684.2**	***(105.8%)***
Net cash generated from/(used in) financing activities	5.3	(744.7)	*(100.7%)*
Net increase/(decrease) in cash	**36.7**	**(35.2)**	***(204.3%)***
Cash at end of period	**148.2**	**98.6**	*50.3%*

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Maintaining a Robust, Appropriate Capital Structure

Key Highlights

- Primary IPO net proceeds of £255m used to reduce leverage
- All outstanding mark to market derivatives settled at IPO
- Post-IPO leverage target of 3x Net Debt / EBITDA
- Post-IPO Net Debt of £468m [(1)]
- New long-term facilities in place

	£m
Net debt as at 30 June 2014 (incl. shareholder loans)	**1,627.0**
Capital restructuring:	
Shareholder loans	(894.0)
Net proceeds of IPO	(255.0)
Net settlement of bank debt and swaps	(11.0)
Proforma net debt as at 30 June 2014	**467.0**
Annualised H1 EBITDA	**159.8**
Proforma EBITDA leverage multiple (times)	**2.9x**

Note
1) £425m debt add £79.6m finance leases less £32m cash less prepaid finance costs £5m.

Financial Outlook & Guidance

Improving Payor Trends: Driving High Single Digit Growth

PMI	■ Volume expected to show early signs of recovery in H2 2014 ■ Overall revenues above recent market trends post-market recovery in 2015
Self Pay	■ Revenue growth in line with 2013 ■ Expected to grow ahead of historic market growth in 2015
NHS	■ From H2 2014 revenue growth in-line with historic trends ■ Tariff expectations from (2)% to flat over next three years
Costs	■ Increased central costs of c. £3m/year (£1.3m in FY14) ■ Senior management & employee LTIP costs up to c. £6m/year (£1m for remainder FY14)

Operational Review

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Spire's Unique Proposition

Bushey Hospital

Manchester Development

Leicester Hospital

Brighton Hospital

Spire is uniquely positioned to capture a growing share of a rapidly expanding private healthcare market

1. **Fast growing market:** persistent and growing supply gap
2. **Well positioned** through well invested and scalable hospitals
3. **Culture of excellence** valued by consultants, GPs, patients and payors
4. **Strong track record** of growth

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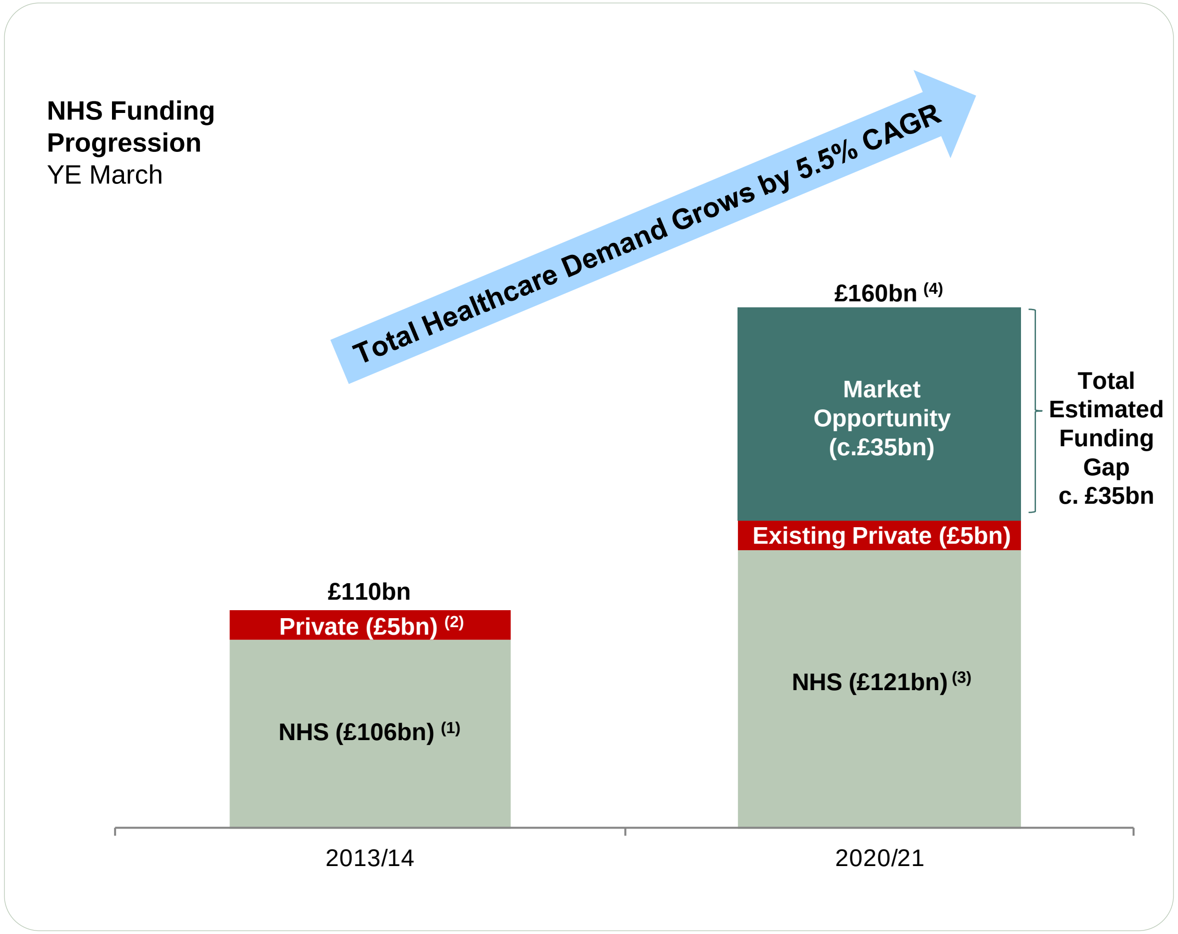
Market Overview

Rapidly Growing Healthcare Supply Gap



H1 Highlights

PMI

- Market continues to recover
- BUPA contract negotiations ongoing

Self Pay

- Market continues to grow as economic recovery gains pace
- Focus on top 30 rationed procedures by the NHS

NHS

- Continue to grow presence in NHS market
- Recent political commentary has not affected demand

Note

Source: Laing & Buisson Private Acute Medical Care 2013, PESA 2013, NHS England, Department of Health Annual Report 2012; NHS.

1) NHS expenditure excluding capex (i.e. opex) for 2013/14 based on PESA.
2) 2013 Independent Acute Medical Hospitals & Clinics market value based on Laing & Buisson.
3) Assumes 2% p.a. nominal funding growth for the NHS budget based on NHS estimates.
4) Assumes 5.5% p.a. Nominal UK healthcare services demand growth based on NHS estimates.

Operational Review

	PMI	Self-Pay	NHS
Operational Drivers	▪ Continue to invest in driving acuity ▪ Introduce improved efficiency into reducing cost of patient care ▪ Cataracts ▪ Continued investment in new capacity and new services in highly concentrated PMI markets	▪ Develop simple, transparent message around the cost of self pay treatment ▪ Correlated to top 30 rationed procedures e.g. hernias, cataracts ▪ Developed website to improve patient understanding ▪ Introduced TV trial in Norwich market resulting in increase in enquiries and conversions. Will now be rolled out in six additional markets	▪ Continue to build Choose & Book through GP and CCG engagement ▪ Engagement at a local level with NHS hospitals on reducing waiting list pressures ▪ Continue to drive efficiencies into the cost of pathways to NHS patients to mitigate tariff reductions

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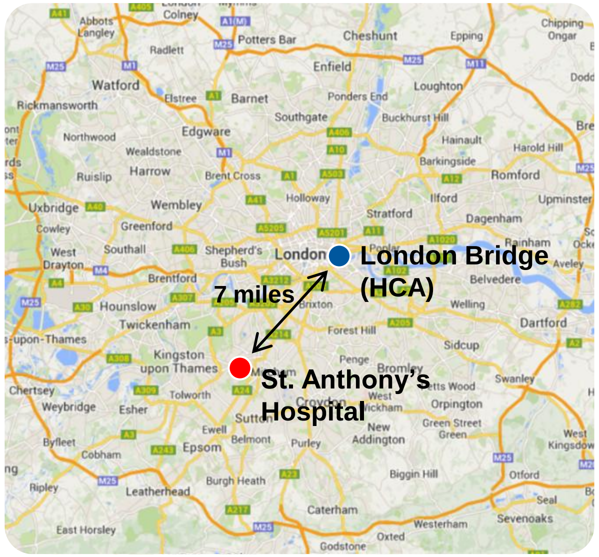
Acquisition of St. Anthony's

Current Proposition

- A 4 theatre facility with the ability to carry out high-acuity work
- 2 theatres are space constrained
- Low volume of orthopaedic work
- CMA approval expected by the end of September



Stage 1: Plug into Spire Platform

Sept 2014

- Shared service centre and in-house capabilities
- Take out cost base

Stage 2: Reconfiguring the Hospital

2016-18

- Increase from 4 to 6 theatres
- Improve services

Current Trading Performance

- St. Anthony's trading performance in line with expectations

Target Financial Metrics

- £60m total capex (including £38m acquisition cost)
- Target 25% run-rate EBITDAR margin by the end of 2015
- Target 25-30% pre-tax ROCE [1] by 2018

Note

1) ROCE defined as incremental EBITDAR / Capex investment.

Delivery of New Services

Flagship Cancer Centres

Diagnostics → Chemotherapy → Radiotherapy → Cancer Surgery

Recently completed **Radiotherapy Centre in Bristol** allows Spire to deliver entire cancer treatment pathway...

… which is **in line with budget** and **reached EBITDA break-even within two months of opening**: expected return 20% (5 year pre-tax ROCE)

- **3 additional sites currently under negotiation**

Other Developments

- Cardiac catheterisation lab in Cardiff completed
- Major reconfiguration at Tunbridge Wells
- Five additional theatres added to network increasing capacity by 4% (1)
- Work ongoing on an additional two theatre developments for delivery in H2 2014 (Harpenden & South Bank)

Note
Source: Ambrafund.
1) Including St. Anthony's acquisition.

Projects in the Pipeline

Manchester Development

- New Spire hospital offering broader range of complex surgery and care
- Partnership with Siemens
- Construction to begin in February 2015, subject to planning permission

Announced ✓

2 Further Regional Sites

- Two additional regional sites identified and to be constructed
- Expected opening in 2017

On Track ✓

2 Central London Sites

- Additional sites in central London in early stages of planning
- Potentially opening in 2018

Sites Identified ✓

Multiple Growth Drivers

Near Term **New Spire Developments: Driving Double Digit Growth** *Medium Term*

St. Anthony's

- £60m capex employed
- Target 25% run-rate EBITDAR margin by end of 2015
- Target 25-30% pre-tax ROCE by 2018

New Theatres

- 10 new theatres over next four years
- £3-5m of capex / theatre
- Typical 3-year pre-tax ROCE of 20-25%

Radiotherapy

- 4+ further sites to be developed by 2017
- c.£12m of capex / site
- Target year 5 pre-tax ROCE of c.20%

New Hospitals

- Manchester + 2 further regional sites opening by end of 2017
- £45m average capex / site
- Target year 5 pre-tax ROCE of 20-25%

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Summary

1. Strong revenue growth across all payor groups
2. Strong earnings growth – Adjusted EBITDA up 9.3%
3. Strong balance sheet providing solid platform for further growth
4. Strong market dynamics offering multiple future growth opportunities

Any Questions?

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