Spire Healthcare

# 2016 Half Year Results Presentation

These materials contain certain forward-looking statements relating to the business of Spire Healthcare Group plc (the “Company”), including with respect to the progress, timing and completion of the Company’s development, the Company’s ability to treat, attract, and retain patients and customers, its ability to engage consultants and GPs and to operate its business and increase referrals, the integration of prior acquisitions, the Company’s estimates for future performance and its estimates regarding anticipated operating results, future revenues, capital requirements, shareholder structure and financing. In addition, even if the Company’s actual results or development are consistent with the forward-looking statements contained in this presentation, those results or developments may not be indicative of the Company’s results or developments in the future. In some cases, you can identify forward-looking statements by words such as “could,” “should,” “may,” “expects,” “aims,” “targets,” “anticipates,” “believes,” “intends,” “estimates,” or similar words. These forward-looking statements are based largely on the Company’s current expectations as of the date of this presentation and are subject to a number of known and unknown risks and uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by these forward-looking statements. In particular, the Company’s expectations could be affected by, among other things, uncertainties involved in the integration of acquisitions or new developments, changes in legislation or the regulatory regime governing healthcare in the UK, poor performance by consultants who practice at our facilities, unexpected regulatory actions or suspensions, competition in general, the impact of global economic changes, and the Company’s ability to obtain or maintain accreditation or approval for its facilities or service lines. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements made during this presentation will in fact be realised and no representation or warranty is given as to the completeness or accuracy of the forward-looking statements contained in these materials.

The Company is providing the information in these materials as of this date, and we disclaim any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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# Agenda

1 **Overview**
*Garry Watts, Chairman*

2 **Financial Review**
*Simon Gordon, CFO*

3 **Patient Choice**
*Peter Corfield, GCD*

4 **Outlook**
*Garry Watts, Chairman*



Looking after you.

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# Overview

*Garry Watts, Chairman*

# H1 2016 performance



## Spire's H1 2016 performance was in line with expectations

- **Financial performance was positive**
  - Revenue increased 4.4% to £469.5m, with underlying growth in all 3 payor categories
  - EBITDA margin was steady at 18%, and excellent cash conversion from EBITDA
  - Adjusted EPS increased to 9.6p, up 2.1% on H1 2015
  - An interim dividend declared of 1.3p per share (H1 2015: 1.3p)
- **In-patient and Daycase admissions grew** by 2.5% (underlying) to 139,800 patients (H1 2015: 136,400)
- **We maintained our strong capital investment programme** with £71.9m of spend (H1 2015: £37.6m)

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# Key factors for the business



- **Strong growth** in our Self-pay and NHS business – and increased market share in the PMI sector
  - Where patients have a choice, they are increasingly choosing a Spire facility in which to have their treatment
- **We continue to gain market share in our core business**
  - Our share to June 2016 of all UK hips and knees procedures was 9.5% - by some distance the largest in the independent sector
- **We continue our programme of operational improvements**, including
  - Reducing our cost of delivery and
  - Improving our asset utilisation

# Our robust business development programme

Overview

**We continue to grow our asset base to service our payor groups better and to meet growth in demand**

- **Hospitals – Regional**
  - Our two new Spire hospitals are both on time and on budget to open in early 2017
    - Spire Manchester: 6 theatres, 76 beds, clinical trials unit, HDU
    - Spire Nottingham: 4 theatres, 56 beds, HDU
  - Spire Cambridge – significant project underway, including new anaesthetic room, daycare suite and endoscopy suite
  - New theatres - 2 under construction, 1 in the planning stage

- **Hospitals – London**
  - Spire Bushey – significant project approved, including a new theatre, out-patient and bedroom capacity
  - Spire St Anthony's – the new 6 operating theatre block opened in August 2016 – work continues on further planned redevelopment
  - Central London – work continues to source suitable site(s)
- **Specialist care centres**
  - We have acquired the land and received planning permission for our third centre

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# Our expanding service offering

Overview

## Innovation & partnership

- **Spire Southampton** launched a partnership with Southampton NHS Foundation Trust to provide a new state-of-the-art 3D robot to treat patients with early-stage prostate cancer
- The da Vinci Surgical System enables keyhole (laparoscopic) operations using hand movements to direct tiny instruments inside the body
- Spire provides training facilities & theatre space to treat NHS patients, resulting in a reduction in waiting times & access to this advanced surgical technology

- **Spire St Anthony's** has introduced a new, five-minute Rafaelo procedure (developed in Poland) for treating haemorrhoids, which allows patients to avoid the pain of major surgery and resume their normal daily activities immediately – this procedure is not yet available on the NHS

# Clinical & regulatory update



## The CQC intends to have inspected all UK public & private hospitals by end 2016

- Although demanding, we welcome the CQC inspection regime
  - It provides standardised inspections across public and private providers
  - Over time we expect to see improvements in clinical performance across the UK healthcare sector as a whole
  - The outputs – which are publicly available – allow customers to make more informed choices between providers & hospitals based on quality
  - Spire has made changes to its own quality assurance processes to better align them to those of the CQC

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# Financial Review

*Simon Gordon, CFO*

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# Trading headlines H1 2016

**H1 2016 performance was in line with expectations**

- Revenue up overall by 4.4% on H1 2015 to £469.5m
- Underlying revenue growth of 5.4% with growth across all payor categories
- EBITDA margin of 18.0% in line with guidance for the full year
- Margin pressure from clinical staffing cost increases well managed in the period
- Adjusted EPS of 9.6p up 2.1% from 2015
- Excellent cash conversion of EBITDA – 112.3% in H1 2016
- Net debt stable despite £71.9m of capital expenditure in the period
- Guidance unchanged for the full year

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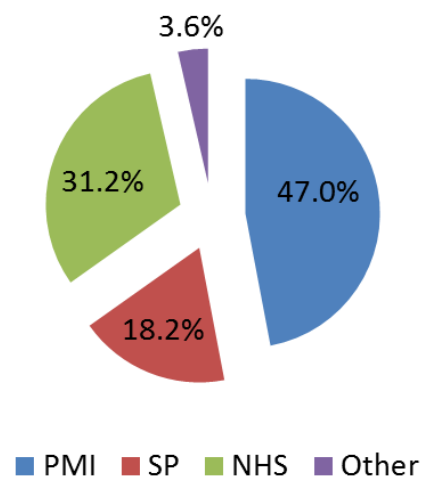
# Financial highlights H1 2016

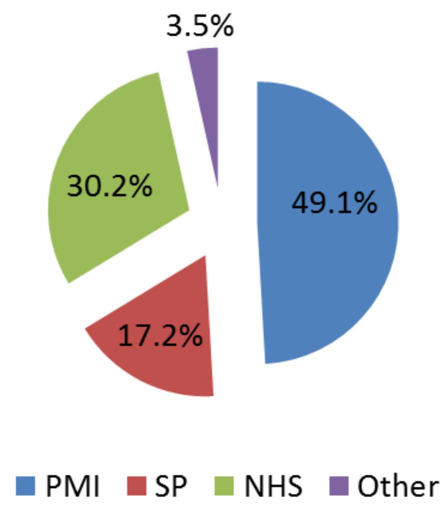
Financial Review

| | 2016 £m | 2015 £m | Growth % |
|---|---|---|---|
| **Group revenue** | **469.5** | **449.8** | **4.4%** |
| *Disposals* | *-* | *(4.5)* | |
| **Underlying revenue** | **469.5** | **445.3** | **5.4%** |

## H1 2016 revenue mix




## H1 2015 revenue mix



# Financial highlights H1 2016



| | 2016 £m | 2015 £m | Growth % |
|---|---|---|---|
| Group EBITDA | 84.5 | 83.4 | 1.3% |

| | H1 2016 | H2 2015 | H1 2015 |
|---|---|---|---|
| EBITDA margin | 18.0% | 17.6% | 18.5% |

**2015 FY margin 18.1%**

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# Revenue and admissions growth

Financial Review

| Revenues | 2016 £m | 2015 £m | Growth % | Underlying growth % |
|---|---|---|---|---|
| PMI | 220.7 | 220.8 | - | 0.5% |
| Self pay | 85.3 | 77.4 | 10.2% | 10.8% |
| NHS | 146.6 | 135.8 | 8.0% | 10.1% |
| Other | 16.9 | 15.8 | 7.0% | 8.3% |
| **Total revenues** | **469.5** | **449.8** | **4.4%** | **5.4%** |

| Admissions | 2016 '000s | 2015 '000s | Growth % | Underlying growth % |
|---|---|---|---|---|
| PMI | 63.5 | 64.4 | (1.4%) | (0.8%) |
| Self pay | 23.2 | 21.4 | 8.4% | 8.9% |
| NHS | 53.1 | 52.1 | 1.9% | 3.9% |
| **Total admissions** | **139.8** | **137.9** | **1.4%** | **2.5%** |

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Financial Review

# NHS revenues analysis

| Underlying revenues | 2016 £m | 2015 £m | Growth % |
|---|---|---|---|
| eReferral | 115.4 | 97.8 | 18.0% |
| NHS Local Contract | 31.2 | 35.3 | (11.6%) |
| **NHS total revenues** | **146.6** | **133.1** | **10.1%** |

| Revenue growth rate | H1 2016 % | H2 2015 % | H1 2015 % |
|---|---|---|---|
| eReferral | 15.7% | 11.0% | 12.0% |
| NHS Local Contract | (13.6%) | (35.9%) | 29.4% |
| **NHS total revenues** | **8.0%** | **(2.2%)** | **16.2%** |

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# Underlying revenue bridge by payor

Financial Review

| | 2015 £m | *Rate £m* | *Volume £m* | *OPD £m* | 2016 £m |
|---|---|---|---|---|---|
| PMI | 219.6 | *0.7* | *(1.0)* | *1.4* | 220.7 |
| Self pay | 77.0 | *2.7* | *4.6* | *1.0* | 85.3 |
| NHS | 133.1 | *4.9* | *4.4* | *4.2* | 146.6 |
| **Totals** **(Group revenue excl. disposals and other revenues)** | 429.7 | ***8.3*** | ***8.0*** | ***6.6*** | **452.6** |

| Day case % admissions | 2015 % | 2016 % |
|---|---|---|
| PMI | 74.6% | 75.4% |
| Self pay | 56.9% | 56.6% |
| NHS | 73.1% | 73.6% |
| **Totals** | **71.5%** | **71.7%** |

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Financial Review

# Trading margin analysis

| Costs as % revenues | 2016 H1 % | 2015 H1 % | 2015 FY % |
|---|---|---|---|
| Clinical staff costs | 18.4% | 18.5% | 18.9% |
| Medical fees | 11.4% | 11.5% | 11.4% |
| Other direct costs | 22.2% | 21.7% | 21.7% |
| **Cost of sales** | **52.0%** | **51.7%** | **52.0%** |

| Costs as % revenues | 2016 H1 % | 2015 H1 % | 2015 FY % |
|---|---|---|---|
| **Gross margin** | **48.0%** | **48.3%** | **48.0%** |
| Overheads | (23.4%) | (22.9%) | (22.9%) |
| Rent | (6.6%) | (6.9%) | (7.0%) |
| **EBITDA margin** | **18.0%** | **18.5%** | **18.1%** |



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Financial Review

# Cash flow for the period

| | 2016 £m | 2015 £m |
|---|---|---|
| Operating cash flow before exceptionals and tax | 94.9 | 70.0 |
| Exceptional items | (2.8) | (2.7) |
| Taxation | (3.2) | (0.4) |
| Net cash used in investing activities | (71.5) | (37.7) |
| Net cash used in financing activities | (19.6) | (26.0) |
| **Net increase / (decrease) in cash** | **(2.2)** | **3.2** |
| Opening cash | 78.9 | 74.5 |
| **Closing cash** | **76.7** | **77.7** |

| | £m | Adj. EBITDA leverage |
|---|---|---|
| Net debt as at 30 June 2016 | 422.6 | 2.6x |
| Net debt as at 31 December 2015 | 419.5 | 2.6x |

# Cash flow for the period

| | 2016 £m | 2015 £m |
|---|---|---|
| Operating cash flow before exceptionals and tax | 94.9 | 70.0 |
| EBITDA | 84.5 | 83.4 |
| **Cash conversion of EBITDA** | **112.3%** | **83.9%** |

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# Patient Choice

*Peter Corfield, Group Commercial Director*



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# PMI – share gain in a flat market

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**Spire will continue to grow its share of the PMI market and continue to work actively with the PMIs to grow the market as a whole**

## Winning market share

- Building strategic relationships
- Clinical and customer outcomes
- Managing Open Referrals
- Hospital expansion and adding complexity
- Proposition development

## Growing insured lives

- Work together to deliver "value"
- Simplify pricing arrangements
- Deliver higher complexity
- Captive product with April UK
- Increase acceptance of the arguments for corporate coverage

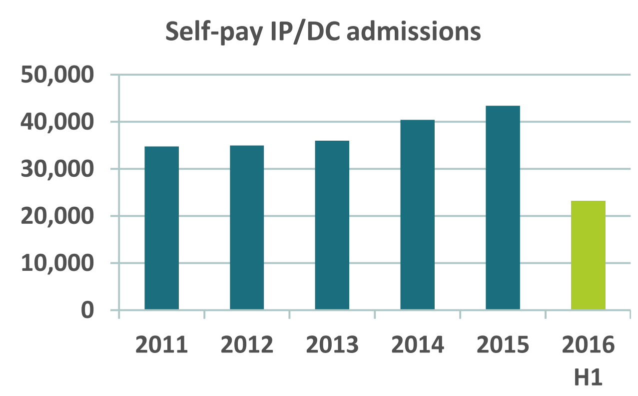
**For its latest financial year, Bupa reported "higher earned premiums, most notably in the Corporate and SME segments, and strong customer retention rates"**

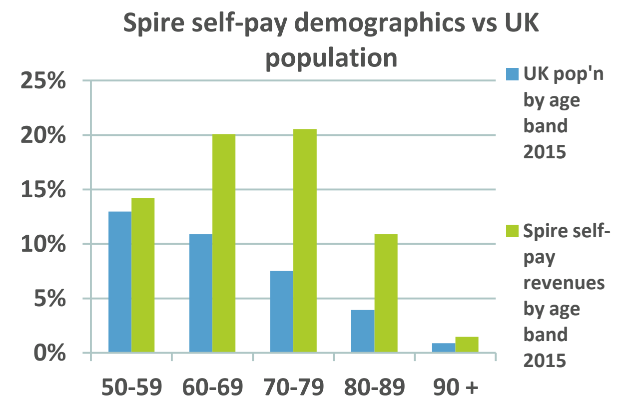
# Self-pay – excellent H1 growth

Patient Choice

**Strong growth in our Self-pay business is expected to continue with patients increasingly choosing to pay for their own treatment**

- **Strong market growth expected to continue**
  - Spire capitalising on this with 10.2% YoY growth in Revenue H1 2016
- **UK's demographics favour growth** in the existing footprint
  - Our proprietary segmentation also shows untapped demand beyond "traditional" segments
- **To grow this payor group** we are:
  - Developing our proposition
  - Improving our digital offering
  - Developing our customer experience



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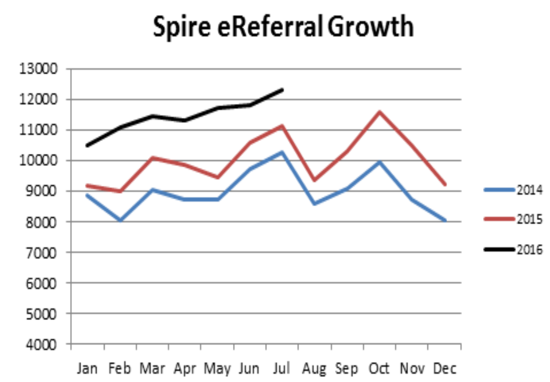
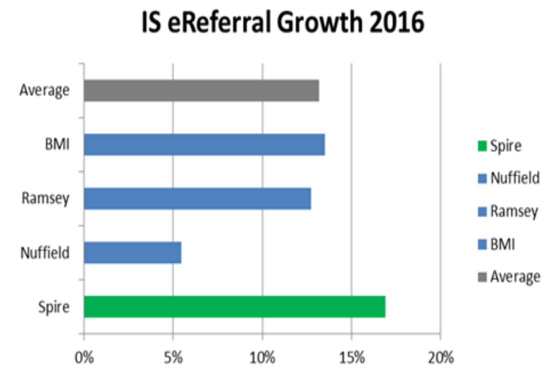
# NHS – strong H1 growth in eReferral

Patient Choice

**Strong growth in our NHS business will continue in the medium term, with an increasing proportion from eReferral rather than Local Contract work**

- **The overall eReferral market is growing** and Local Contract work is also strengthening
- **Spire eReferral was 79% of overall NHS revenues in H1 2016** (H1 2015: 73%)
  - Our H1 growth outperformed other independent sector groups
- **NHS waiting lists continue to rise**
  - 3.8m people now on NHS waiting lists
  - 476k on the Orthopaedic list, up 15% in the last year
- **To grow this payor group** we continue to foster strong local relationships with GPs (for eReferral) and with NHS Trusts (for Local Contract)



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# NHS –
# Tariff and patient choice



- **Tariff** – NHS Improvement released draft proposal
  - 2 year tariff from April 2017, with only inflation & efficiency impacting 2018/19 tariff
  - Estimated impact on Spire's NHS revenues if no management action taken
    - 2017/18: Reduction marginally greater than average IS impact assessment of 2.5%
    - 2018/19: A further efficiency reduction of c. 1%
  - Management action will be taken to mitigate any reduction, as in previous years
  - Consultation underway – final tariff announcement expected in January 2017
- **Patient choice -** The August 2016 NHS publication "*Securing meaningful choice for patients*" underlines its determination, and sets out measures to ensure, that patients "are consistently offered choice" and "to promote their involvement in decisions in respect of their care or treatment"

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# Outlook

*Garry Watts, Chairman*

# FY 2016 guidance unchanged



- The core Spire proposition continues to be validated
  - An underfunded NHS plus favourable healthcare demographics should drive attractive revenue growth in all payor groups (including the PMI business) over the medium to long term
- Our focus on patient choice appears to be bearing fruit in all our payor groups – and we will continue to build on this
- Intelligent and disciplined investment in both assets and operational improvements will help to grow revenues while maintaining high levels of cash generation

**We therefore confirm the guidance for FY 2016 (issued in March 2016):**
**Revenue growth will be 3-5% converted at a constant EBITDA margin to FY 2015**

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# Questions

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# 2016 Half Year Results Presentation

# Appendix: Reconfirmed guidance (in full)

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# FY 2016 guidance unchanged

Appendix

**2016 revenue growth between 3-5% converted at constant EBITDA margin to 2015**

| | |
|---|---|
| **PMI** | Low single digit revenue growth underpinned by investment in capacity, pricing positive<br>PMI market expected to be stable |
| **Self-Pay** | Revenue growth high single digit, improved over 2015, pricing positive<br>Catalysts widening NHS waiting times and Spire product development |
| **NHS** | Tariff; Q1 minus 1.8%; Q2 onwards plus 1.5%<br>NHS eReferral revenue growth low double digit – referral pipeline strong<br>NHS Local Contract revenues down materially in H1 2016 and stabilise in H2 2016<br>NHS revenue growth overall mid single digit |
| **H1/H2** | Relative revenue and EBITDA growth profile between H1 and H2 will be the reverse of 2015 given NHS Local Contract revenue challenge persists for H1 2016 |
| **Taxation** | Effective tax rate between 20.5% and 21.0% of profit before taxation |

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# FY 2016 guidance unchanged

Appendix

**2016 revenue growth between 3-5% converted at constant EBITDA margin to 2015**

| | |
|---|---|
| **Exceptional items** | Expect £3-5m arising from pre-opening losses in Manchester and Nottingham and further cost rationalisation initiatives across the business |
| **Capex & Dividends** | Capital expenditure of between £170m - £190m, subject to cash flow phasing of developments<br>20% dividend payout ratio expected (one-third interim, two-thirds final) |
| **Net debt** | Expect to close 2016 on or around 3.0 times EBITDA leverage |