

2018 Half Year Results Presentation

18 September 2018



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Agenda

Introduction

Garry Watts, Chairman

H1 2018 Operational Overview

Justin Ash, Chief Executive Officer

H1 2018 Financial Review

David Lomas, Interim Chief Financial Officer

Outlook for FY 2018 & Beyond

Justin Ash, Chief Executive Officer

Introduction

Garry Watts, Chairman

H1 2018 Performance Overview

Underlying H1 performance down on previous year reflecting significantly declining NHS admissions and lower than anticipated growth in Private admissions

■ Revenue

- Slightly down at £475.6m, with underlying growth in Private
- Overall growth in ARPC

■ Costs

- Increased as previously indicated and in line with plan, especially in the 2 core strategic areas of clinical quality and private proposition development
- Non-clinical cost reduction programme underway

■ Cash flow

- Continuing strong cash conversion from EBITDA
- Capital investment lowered as lower volumes have reduced need
- Net debt lower at 30 June 2018 than at 31 December 2017
- **Interim dividend maintained** at 1.3p per share
- **Executive team complete** with new CFO & new COO both starting in October 2018

H1 2018 Operational Overview

Justin Ash, Chief Executive Officer

Performance vs Plan – H1 2018

Strategic investments made as planned.....

2018 Consolidate

- ✓ Focus on Clinical quality
- ✓ Develop Self-Pay
- ✓ Drive recent hospital developments
- ✓ Invest in delivery infrastructure
- ✗ Minimise impact of volatile NHS

.....in a challenging environment

Costs in line with budget, but not flexible

- Investment to lead on clinical quality
- Investment to grow private proposition
- Investment to build overall infrastructure
- Cost savings initiatives

Revenue down and with mix changes

- PMI on track, some shift to oncology
- Self-pay growth, but lower than anticipated
- NHS declining – still open for business but not chasing marginal work

Key Takeaways - H1 2018

With recent market/sector developments reinforcing our two core strategies, Spire will remain the leading player in a rapidly evolving sector

Core strategies reinforced

- Focus on clinical quality and increasing Private even more appropriate in light of:
 - Significantly increased safety focus from Government, regulators and payors
 - Unprecedented depth and speed of decline in NHS electives

Sector challenged by rate of change

- NHS waiting lists continue to reach new highs as CCGs ration treatment – likely to continue in short term at least
- Increasing numbers of people aware of and enquiring about Self-pay
- Likelihood of significant independent hospital sector shake-out
- Spire to maintain focus on core strategy

H1 2018 Financial Review

David Lomas, Interim Chief Financial Officer

Trading Headlines

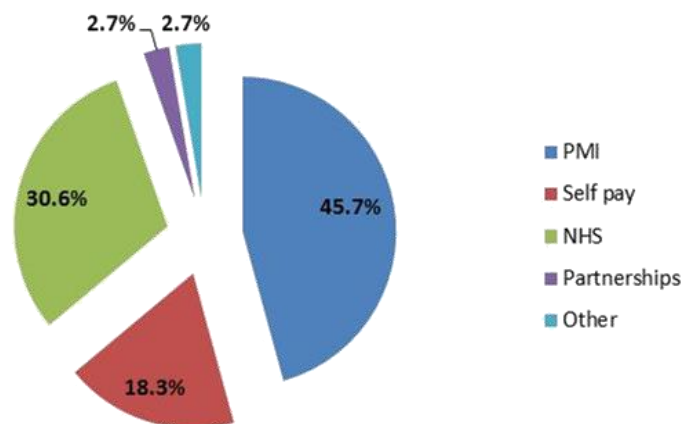
Underlying H1 performance down on previous year due to declining NHS revenues

- Overall revenue broadly flat with 1.1% decline on H1 2017 to £475.6m
 - Underlying revenue growth from Private Payors offset by lower NHS revenue, leading to underlying revenue decline of 2.4%.
 - Revenue reduction driven by lower IP/DC admissions - decline in underlying admissions of 5.3% largely offset by increase in average revenue per customer
 - Increase in average revenue per customer reflects change in payor mix (with less NHS) and price increases
- Costs increase driven by
 - Planned investments in clinical quality
 - Higher drugs costs due to increased oncology admissions
- EBITDA margin at 13.9% reflects above & inability to fully flex hospital costs in line with lower admissions
- Adjusted EPS of 4.1p down 52.9% from 2017
- Cash flow
 - Positive cash conversion of EBITDA - 94.1% in H1 2018
 - Net debt is lower after £33.5m of capital expenditure in the period
 - Net debt is 3.4 times EBITDA, comfortably within bank covenant

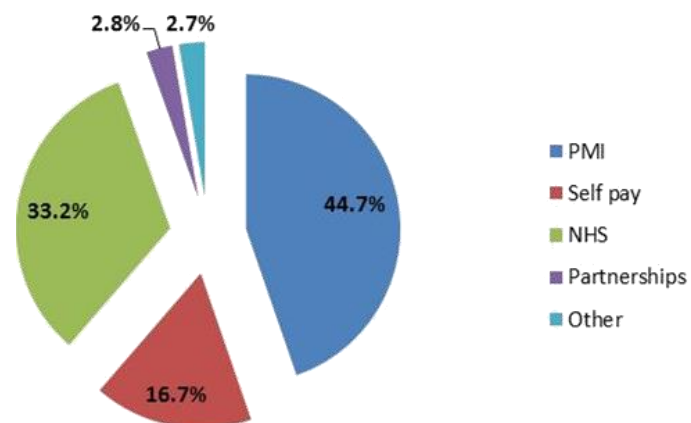
Financial Highlights H1 2018

	H1 2018 £m	H1 2017 £m	Growth %
Underlying Revenue	445.6	456.6	(2.4)%
<i>Spire St Anthony's, Spire Manchester & Spire Nottingham</i>	30.0	24.4	23.0%
Group Revenue	475.6	481.0	(1.1)%

H1 2018 Underlying Revenue mix



H1 2017 Underlying Revenue mix



Financial Highlights H1 2018

	H1 2018 £m	H1 2017 £m	Growth %
Underlying EBITDA	65.3	82.8	(21.1)%
<i>Spire St Anthony's, Spire Manchester & Spire Nottingham</i>	0.8	0.4	100.0%
Group EBITDA	66.1	83.2	(20.6)%

	H1 2018 %	H2 2017 %	H1 2017 %
Underlying EBITDA margin	14.7%	16.3%	18.1%
<i>Spire St Anthony's, Spire Manchester & Spire Nottingham</i>	2.6%	(9.9)%	1.6%
EBITDA margin	13.9%	14.8%	17.3%

Revenue & Admissions Growth - Underlying

Revenues	H1 2018 £m	H1 2017 £m	Underlying growth %	Total Group growth %
PMI	203.6	204.1	(0.2)%	1.0%
Self pay	81.4	76.1	7.0%	8.3%
NHS	136.3	151.5	(10.0)%	(9.2)%
Partnerships	12.2	12.6	(3.2)%	(1.5)%
Other	12.1	12.3	(1.6)%	1.6%
Total revenues	445.6	456.6	(2.4)%	(1.1)%

Admissions	H1 2018 '000s	H1 2017 '000s	Underlying growth %	Total Group growth %
PMI	55.5	57.5	(3.6)%	(2.6)%
Self pay	22.4	22.3	0.7%	2.1%
NHS	47.1	52.1	(9.6)%	(8.5)%
Partnerships	1.4	1.6	(9.9)%	(5.9)%
Total admissions	126.5	133.5	(5.3)%	(4.1)%

NHS Revenues Analysis - Underlying

Underlying revenues	H1 2018 £m	H1 2017 £m	Growth %
eReferral	120.0	127.2	(5.6)%
NHS Local Contract	16.2	24.3	(33.3)%
NHS total revenues	136.3	151.5	(10.0)%

Underlying revenue growth rate	H1 2018 %	H2 2017 %	H1 2017 %
eReferral	(5.6)%	0.8%	10.2%
NHS Local Contract	(33.3)%	(41.8)%	(11.7)%
NHS total revenues	(10.0)%	(6.8)%	5.9%

Revenue Bridge By Payor - Underlying

Underlying revenues	H1 2017 £m	Volume £m	Rate £m	OPD £m	H1 2018 £m
PMI	204.1	(4.7)	4.8	(0.6)	203.6
Self pay	76.1	0.4	3.9	1.0	81.4
NHS	151.5	(11.5)	(1.6)	(2.1)	136.3
Partnerships	12.6	(0.4)	0.4	(0.4)	12.2
Totals (Group revenue other revenues)	444.3	(16.2)	7.5	(2.1)	433.5

Day case % admissions	H1 2018 %	H1 2017 %
PMI	78.0%	76.6%
Self pay	58.1%	58.1%
NHS	73.9%	73.5%
Partnerships	60.8%	60.8%
Totals	72.8%	72.1%

Trading Margin Analysis - Underlying

Costs as % revenues	H1 2018 %	H1 2017 %	FY 2017 %
Clinical staff costs	19.1%	18.0%	18.8%
Direct costs	22.4%	21.9%	21.9%
Medical fees	10.7%	11.2%	11.1%
Cost of sales	52.2%	51.0%	51.8%

Costs as % revenues – Underlying	H1 2018 %	H1 2017 %	FY 2017 %
Gross margin	47.8%	49.0%	48.2%
Overheads	25.7%	24.0%	23.6%
Rent	7.4%	6.9%	7.3%
EBITDA margin	14.7%	18.1%	17.3%

Cash Flow For The Period

	H1 2018 £m	H1 2017 £m
Operating cash flow before exceptionals and tax	62.2	81.2
Exceptional items	(1.4)	(4.9)
Taxation	(1.4)	(0.6)
Net cash used in investing activities	(33.4)	(59.1)
Net cash used in financing activities	(20.1)	(19.6)
Net increase / (decrease) in cash	5.9	(3.0)
Opening cash	39.2	67.9
Closing cash	45.1	64.9

	£m	Adj. EBITDA leverage
Net debt as at 30 June 2018	458.1	3.4x
Net debt as at 31 December 2017	462.8	3.1x

Note on Spire's debt covenant:

- Total Net Debt to EBITDA excluding exceptional and non-recurring items not to be greater than 4:1 and tested semi-annually
- Included in H1 2018 debt leverage calculation is c. £2m of non-recurring items




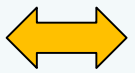



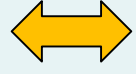



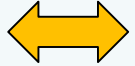



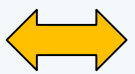

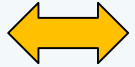



Cash Flow For The Period

	H1 2018 £m	H1 2017 £m
Operating cash flow before exceptionals and tax	62.2	81.2
EBITDA	66.1	83.2
Cash conversion of EBITDA	94.1%	97.6%

Outlook for FY2018 and beyond

Justin Ash, Chief Executive Officer

Overview Of Key Metrics

Business metric	H1 2018 vs Budget 2018	FY 2018 vs FY 2017	Future trend, FY 2019 onwards
Admissions			
ARPC			
Outpatient			
Clinical/hospital costs			
Overheads			
Overall costs			
Capex			

Outlook for FY 2018 And Beyond

- Clinical quality & customer care
- NHS environment
- Payor group initiatives & long term targets
- Cost savings and opportunities
- Core capital expenditure review
- Progress on new hospitals
- Overview of key metrics
- Revised outlook for the financial year
- Summary position
- Long term strategy

Clinical Quality & Customer Care

Regulatory & payor requirements have become much more robust in recent months

- **Government** is increasingly involved in safety discussions
 - “The IS can play a useful role adding capacity, promoting innovation and offering patients choice....However, if the sector is to partner with the NHS....[IS] need to get your house in order on safety.” (*Jeremy Hunt letter to Independent Sector CEOs, 8 May 2018*)
- **Care Quality Commission** will re-inspect “Requires Improvement” sites in 2018 (originally thought to be over next 3 years) and has strengthened its approach with a more focused, targeted, unannounced inspection regime
 - “I have been impressed at the speed with which the IS has responded to the CQC’s findings on quality... The proof will be if it is reflected in ratings in future inspections.” (*Prof Ted Baker, Chief Inspector of Hospitals, CQC*)
- **PMIs** are increasing clinical quality weighting in decisions where to direct patients
- **Consumers** are clear that clinical quality is a key factor for them

Clinical Quality & Customer Care

Spire's investment in clinical quality is a key foundation for the future

Actions/Investments 2018

- Enlarged internal inspection team - 2 day inspections, action plan each site, unannounced return visits
- New acuity tool for staffing; POA and clinical governance investment; new critical care standards introduced
- New central recruitment against new and historic gaps - 80% clinical
- Launching biannual "Quality Report" to raise transparency for regulators, payors and other stakeholders

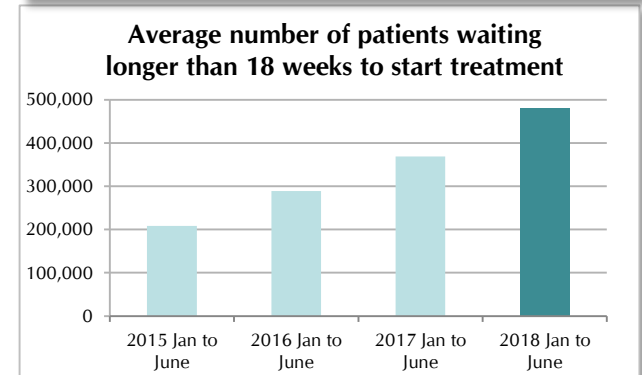
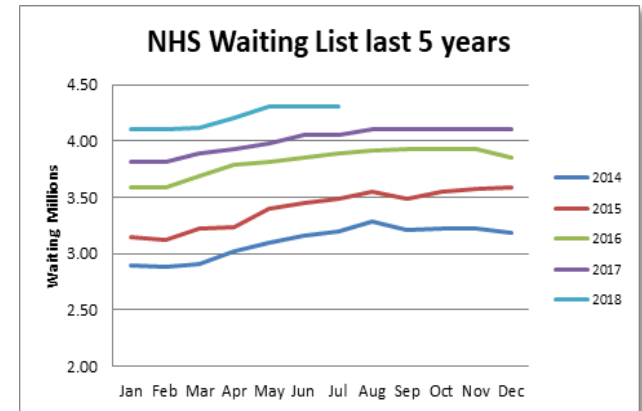
Spire's regulatory status is progressing

- English facilities are mainly rated 'Good' (23) or 'Outstanding' (4) - 'Good/Outstanding' now 73% (up from 67% in Sept 2017)
- Recent CQC inspections all positive (Nottingham 'Outstanding', St Anthony's and Wellesley uprated to 'Good')
- 10 'Requires Improvement' sites remain – re-inspections shortly
- Scottish (2) and Welsh(2) facilities have also received excellent ratings

NHS Environment

NHS cost constraints and referral management schemes underwent a shift change in H1 2018

- CCGs rationing the funding of treatment of acute and chronic conditions, especially orthopaedics
- NHS waiting lists highest for over a decade
 - 4.3m at 31 July 2018, and forecast by NHSPN to reach 5.6m by 2024
 - Orthopaedic waiting list at c.500k
 - Government wants lists at 3.8m by March 2019 - extra NHS funding announced but no impact expected in 2018 at least
- Spire continues to grow share of UK orthopaedics (National Joint Register, Jan-May 2018)



Spire's share of all UK knees is above 10% for first time, & has 9.6% of all UK hips and knees combined

Payor Group Initiatives & Long Term Targets

PMI

- Good contractual relations with all PMIs
- Growth to come from pricing, new facilities, oncology and acuity, increasing open referrals, direct booking portal, and proposition development
- Access to 2 new referral networks
- New partner for own insurance proposition from 2019

Self-Pay

- Spire Opportunity Tool (SpOT) shows Spire has significant potential
- H2 central marketing campaign targets high propensity consumers
- Strong enquiry growth (digital +80%) & increased training at low conversion sites
- Improved consumer finance proposition in Q4
- SpireGP now in all hospitals and growing

NHS

- NHS market to remain volatile – NHS 10 year strategy awaited
- Strengthening relationships with local NHS triage to ensure orthopaedics referrals
- Challenge distortions of patient choice at CCGs
- Tendering for local contracts where available at acceptable terms – possible NHS England impact

Share gain

Accelerating growth

Slowing decline

Cost Savings & Opportunities

Significant cost savings already actioned & opportunities for further efficiencies as volumes grow

Specific actions already taken or planned in FY 2018

- H1 2018: Procurement and purchasing
- H2 2018: Central overhead and mainly non-clinical hospital costs
- Estimated run rate savings for FY 2019: high single digit £ million

Opportunities for costs savings & efficiencies from FY 2019 onwards

- Restructure cost base in FY 2019 onwards to include further cost optimisation in central functions, procurement and hospital cost base
- Operating efficiencies will flow through from volume increases as step-up investments now made in governance roles, assurance work and corporate costs
- Readjustment of theatre lists to increase ability to flex safe staffing requirements

Core Capital Expenditure Review

FY 2018

Area of spend	Amount
Maintenance	c.£44m
Upgrades	c.£12m
New capability and capacity enhancements	c.£22m
New build hospitals	c.£2m
Total 2018 Capex (net)	c.£80m

FY 2019 Onwards

- Spire able to reduce Capex significantly from historic levels
 - Track record of good estate investment
 - Planned operating efficiency improvements
 - Continuing investment in clinical quality, and selective upgrade of Private environment and assets
 - Fewer capacity extensions now likely to be required
- **Annual Capex budget = c.£60m**

Progress At New Hospitals

Spire St Anthony's

- CQC rating = 'Good'
- Development complete
- Ongoing cost base restructuring/ reduction
- Recruitment of orthopaedic, cardiology and neurosurgery consultants

Spire Manchester

- CQC inspection awaited
- Strong revenue and EBITDA growth YoY
- Expectation of further improvement in H2 under new hospital leadership
- New orthopaedic team deal progressing well

Spire Nottingham

- CQC rating = 'Outstanding'
- Growth in revenue as consultants build confidence and move their practices
- All PMIs now registered – good referrals growth
- New hospital leadership will strengthen commercial performance

Positive EBITDA FY 2018

Positive EBITDA FY 2018

2018 improving & on plan
2019 is key year

Revised Outlook For The Financial Year

Payor group revenue expectation for H2 2018

Self-Pay	Continued good growth
PMI	Moderate increase over H2 2017
NHS	eReferral & Local Contract significantly lower than H2 2017
Mix	Continuing NHS orthopaedic reduction, and some PMI shift from orthopaedic to cancer

Overall outlook for FY 2018

EBITDA	In the range of £120-125 million*
Year end net debt	Broadly in line with 31 December 2017 and 30 June 2018

**after charging non-recurring items of c. £5m (n.b. these one-offs are added back to EBITDA for purposes of calculation of Total Net Debt to Adjusted EBITDA ratio on Spire's debt covenant)*

Summary Position

Spire is a strong business, investing into headwinds to build a winning platform

FY 2019 onwards

- Clinical strength underpins all payor strategies
- Realise benefits of PMI network expansions
- Convert new self-pay capability to planned growth
- Realise operating efficiencies and cost savings
- Emerge as leader in a restructuring sector

Long Term Strategy

**Private
revenues**

=

80% of total

**Clinical Quality/
Customer Care**

=

100%

**Annual
EBITDA**

=

£200m

Questions

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