Spire Healthcare

2017 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.

Agenda

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Simon Gordon, Interim CEO

2 **Financial Review**
Andrew Goldsmith, Interim CFO

3 **Business Review**
Simon Gordon, Interim CEO

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Overview

Simon Gordon, Interim Chief Executive Officer

Looking after you.

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H1 performance overview

Spire's H1 2017 performance was in line with expectations and outlook

- **Underlying financial & cash flow performance was positive, strong capital investment maintained**
  - Revenue increased 3.8% to £456.6m, with underlying growth in 2 of our 3 payor categories
  - EBITDA increased by 1.4% to £82.8m, at a margin of 18.1%
  - Strong capital investment continued with £59.5m of spend (H1 2016: £71.9m)
- **Operational performance was positive**
  - In-patient and Daycase admissions were steady at 139,400 patients (H1 2016: 139,800)
  - Average revenue per case increased (again) in each of our payor groups
  - Spire's share of all UK hip and knee procedures increased to 9.7% (NJR, Jan to April 2017)

Business development

We continued to develop our asset base and service offering

- **We opened two new major hospitals, on time and budget -** Spire Manchester in January 2017 and Spire Nottingham in April 2017
- **We added a net seven new operating theatres** to the Spire network – now 133 in total
- **We completed the restructuring of the cost base at Spire St Anthony's** - the hospital is well placed to return to profitability in H2 2017
- **We announced the development of a new Spire hospital at Milton Keynes**
- **Major upgrade and development projects continued** at Spire Cambridge Lea, Spire Bushey and Spire Methley Park
- **We launched our Spire GP service** – and plan to add a digital Spire GP service
- **We have reached a settlement agreement** of all civil litigation relating to Ian Paterson

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Financial Review

Andrew Goldsmith, Interim Chief Financial Officer

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Trading headlines H1 2017

Financial Review

H1 2017 performance was in line with expectations

- Revenue up overall by 2.4% on H1 2016 to £481.0m
- Underlying revenue growth of 3.8% with growth in Self Pay and NHS payor categories
- EBITDA margin of 17.3% in line with guidance for the full year
- Margin pressure from NHS Tariff declines well managed in the period
- Adjusted EPS of 8.7p down 9% from 2016
- Excellent cash conversion of EBITDA – 97.6% in H1 2017
- Net debt stable despite £59.5m of capital expenditure in the period
- Interim dividend maintained at 1.3p per share (H1 2016: 1.3p)

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“Underlying” vs “Total” H1 2017

Financial Review

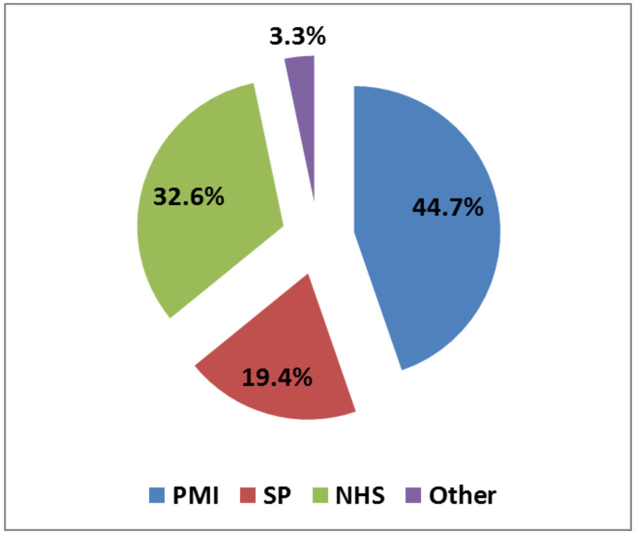
- **Spire St Anthony’s -** has undergone significant cost base restructuring in H1
- **Spire Manchester –** transitioned from original site to new site during January
- **Spire Nottingham –** opened in late April and in ramp-up phase
- **Lifescan –** product withdrawn in H2 2016, some OP Self Pay revenue loss

EBITDA	H1 2017 £m	H1 2016 £m
Spire St Anthony’s	(0.1)	0.2
Spire Manchester	1.4	2.2
Spire Nottingham	(0.9)	-
Lifescan	-	0.4
Total EBITDA	**0.4**	**2.8**

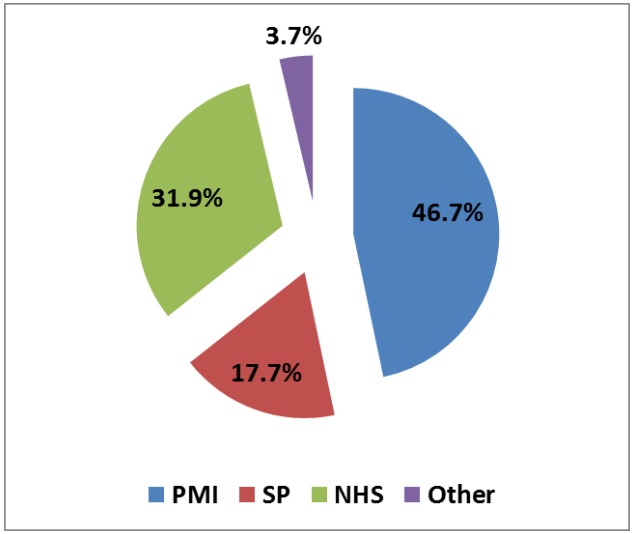
Financial highlights H1 2017

	H1 2017 £m	H1 2016 £m	Growth %
Underlying Revenue	**456.6**	**439.9**	**3.8%**
Non Underlying Revenue	*24.4*	*29.6*	(17.6)%
Group Revenue	**481.0**	**469.5**	**2.4%**

H1 2017 Underlying Revenue mix



H1 2016 Underlying Revenue mix



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Financial highlights H1 2017

Financial Review

	H1 2017 £m	H1 2016 £m	Growth %
Underlying EBITDA	**82.8**	**81.7**	**1.3%**
Non Underlying EBITDA	0.4	2.8	(85.7)%
Group EBITDA	83.2	84.5	(1.5)%

	H1 2017	H2 2016	H1 2016
Underlying EBITDA margin	**18.1%**	**18.2%**	**18.6%**
Non Underlying EBITDA margin	1.4%	(0.8)%	9.5%
EBITDA margin	17.3%	17.2%	18.0%

Underlying FY 2016 margin 18.4%

Revenue and admissions growth – Underlying

Revenues	H1 2017 £m	H1 2016 £m	Underlying growth %	Total Group growth %
PMI	204.1	205.4	(0.6)%	(0.6)%
Self pay	88.7	77.8	14.0%	10.7%
NHS	148.8	140.5	5.9%	3.5%
Other	15.0	16.2	(7.4)%	(7.7)%
Total revenues	**456.6**	**439.9**	**3.8%**	**2.4%**

Admissions	H1 2017 ‘000s	H1 2016 ‘000s	Underlying growth %	Total Group growth %
PMI	57.5	59.8	(3.8%)	(3.6%)
Self pay	23.9	21.9	9.1%	8.6%
NHS	52.1	51.4	1.4%	(0.2)%
Total admissions	**133.5**	**133.1**	**0.3%**	**(0.3)%**

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NHS revenues analysis – Underlying

Financial Review

Underlying revenues	H1 2017 £m	H1 2016 £m	Growth %
eReferral	124.5	113.0	10.2%
NHS Local Contract	24.3	27.5	(11.7)%
NHS total revenues	**148.8**	**140.5**	**5.9%**

Underlying revenue growth rate	H1 2017 %	H2 2016 %	H1 2016 %
eReferral	10.2%	15.6%	15.7%
NHS Local Contract	(11.7)%	18.3%	(16.6)%
NHS total revenues	**5.9%**	**16.0%**	**7.5%**

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Revenue bridge by payor – Underlying

Financial Review

Underlying revenues	H1 2016 £m	*Volume £m*	*Rate £m*	*OPD £m*	H1 2017 £m
PMI	205.4	*(5.2)*	*4.6*	*(0.7)*	204.1
Self pay	77.8	5.2	4.0	1.7	88.7
NHS	140.5	*1.7*	*5.1*	*1.5*	148.8
Totals (Group revenue excl. other revenues)	**423.7**	***1.7***	***13.7***	***2.5***	**441.6**

Day case % admissions	H1 2016 %	H1 2017 %
PMI	76.1%	76.6%
Self pay	58.0%	58.3%
NHS	74.1%	73.5%
Totals	**72.3%**	**72.1%**

Trading margin analysis – Underlying

Financial Review

Costs as % revenues	H1 2017 %	H1 2016 %	FY 2016 %
Clinical staff costs	18.0%	17.7%	18.1%
Direct costs	21.9%	22.0%	21.8%
Medical fees	11.2%	11.4%	11.4%
Cost of sales	**51.0%**	**51.1%**	**51.3%**

Costs as % revenues – Underlying	H1 2017 %	H1 2016 %	FY 2016 %
Gross margin	**48.8%**	**48.8%**	**48.4%**
Overheads	5.4%	5.0%	4.6%
Rent	6.6%	6.8%	6.9%
EBITDA margin	**18.1%**	**18.6%**	**18.4%**

Cash flow impact of Paterson settlement

H2 2017	FY 2018
Costs of £27.6m associated with Settlement provided for in H1 2017	Insurance disputes expected to be resolved
Cash outflow of Settlement costs expected during H2 2017	Unlock up to £30m insurance recoverable (before costs)

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Cash flow for the period

Financial Review

	H1 2017 £m	H1 2016 £m
Operating cash flow before exceptionals and tax	81.2	94.9
Exceptional items	(4.9)	(2.8)
Taxation	(0.6)	(3.2)
Net cash used in investing activities	(59.1)	(71.5)
Net cash used in financing activities	(19.6)	(19.6)
Net increase / (decrease) in cash	**(3.0)**	**(2.2)**
Opening cash	67.9	78.9
Closing cash	**64.9**	**76.7**

	£m	Adj. EBITDA leverage
Net debt as at 30 June 2017	436.1	2.7x
Net debt as at 31 December 2016	422.6	2.6x

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Cash flow for the period

Financial Review

	H1 2017 £m	H1 2016 £m
Operating cash flow before exceptionals and tax	81.2	94.9
EBITDA	83.2	84.5
Cash conversion of EBITDA	**97.6%**	**112.3%**

Looking after you.

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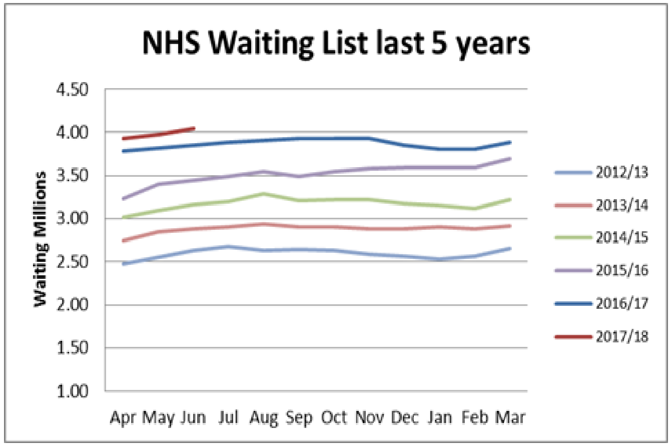
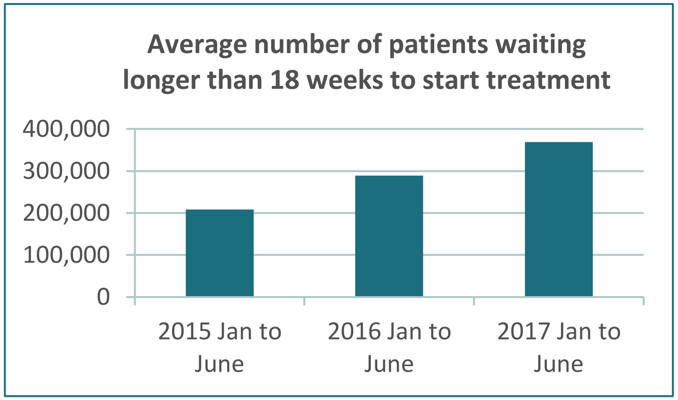
Business Review

Simon Gordon, Interim Chief Executive Officer

NHS rationing and restricting of elective care provides medium term opportunity

- **In the absence of heavily increased funding from the new Government,** the NHS will experience a significant & growing funding gap up to the next election and beyond
- **The NHS is targeting the funding of treatment of acute and chronic conditions** and relaxing performance management within elective care, including waiting lists and rationing of treatment
  - NHS waiting list at over 4 million patients at 30 June 2017 (the highest since December 2007 when Choose & Book was introduced)
  - Elective waiting list at c.500k patients at 30 June 2017
- **NHS Improvement has forecast overall waiting lists of c.5.5 million** by March 2019





Our business strategy

Our evolving strategy is based on five pillars, and aims to build value by offering a broad range of elective treatments, more efficiently, to an increasing number of patients

- **Customer Strategy –** Our patients are at the heart of what we deliver every day, and we are investing in both the customer experience and the fabric of our hospitals
- **Growth Engines –** We continue to focus on our relationships with our 3 major payor groups and on developing new facilities and new services (for example, primary care) to reach new customers
- **Operational Excellence –** We are focused on improving the processes within our hospitals to drive productivity improvement and cost management and to consistently deliver efficient services
- **Our People –** Attracting and retaining the best people and business partners is a key priority and therefore we continue to look at how we can improve our employee and consultant propositions
- **Clinical Quality –** We continuously drive the improvement in clinical quality across all our operations in order to deliver outstanding patient outcomes on an every day basis

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Growth engine – our payor groups

Business Review

H1 2017	Outlook for H2 2017 and beyond
The PMI market: was relatively static with continuing downward pressure on the number of lives covered, together with higher levels of triage from the major insurers	**The PMI market:** PMI growth will remain muted in the short to medium term, but we believe corporates will increasingly assume responsibility for their employees' health
The Self-Pay market: continued to grow as individuals requiring elective care increasingly chose a private alternative	**The Self-Pay market:** Recent good growth should continue, as Spire rolls out its enhanced consumer proposition – albeit may be some Brexit headwinds
The NHS market: Spire saw localised reduction of outsourcing of NHS local contract work offset by a continued increase in e-referral business, with Spire maintaining its share of IS e-referral work	**The NHS market:** uncertain impact from recently introduced "Clinical Peer Review" requirements on GPs

Growth engine – recent hospital developments

Business Review

Recovery at Spire St Anthony's	Ramp-up of Spire Manchester	Ramp-up of Spire Nottingham
▪ Focus in H1 2017 on building orthopaedic business; increased staff flexibility through new contracts; targeted speciality revenue growth; improved stock control ▪ Cost base restructuring now complete ▪ H1 2017 saw some revenue loss, mainly in NHS Local Contract work	▪ Good consultant acquisition following move to Didsbury ▪ Increased acuity through use of hybrid theatre, and introduction of new services such as urology and cardiology ▪ Excellent growth in self pay activity ▪ Increased awareness within GP community ▪ Some adverse impact from NHS referral management	▪ Good consultant engagement - including in high acuity areas ▪ Core orthopaedic work is building ▪ Excellent progress on self pay, limited traction so far on NHS work ▪ Elite athlete/sports teams engaged and using facilities ▪ Patient and consultant feedback without exception highly positive

Growth engine – new hospital planned

We demonstrate our continuing commitment to growth with our new Milton Keynes facility, expected to cost c. £70m and to open to patients in H1 2020

- **Milton Keynes is a truly excellent site for a Spire hospital**
  - Central location and continually improving transport links
  - UK's fastest growing town over the last 10 years - home of the corporate/regional offices of top UK companies.
  - Strong employment growth and favourable demographics for independent healthcare
  - Currently underserved by private healthcare facilities

- **The hospital will be state of the art, housing the latest in medical technology and equipped for the most complex surgical procedures, including**
  - 3 laminar flow theatres, 1 hybrid theatre, 5 Critical care beds. 24 consulting rooms, full diagnostics suite, endoscopy suite. 42 inpatient rooms, 12 day rooms, physiotherapy, pathology & 275 car parking spaces

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Operational excellence

Business Review

Our key areas of focus - ensuring patient safety, customer satisfaction and ease of doing business – will also deliver significant business efficiencies

- **Developing new tools to enhance workforce planning –** ensuring optimal use of clinical skills within the business to reduce premium time and agency
- **Continuing to deliver economies of scale –** in procurement, distribution and logistics and other in-house support services (e.g. pathology and sterilisation)
- **Reviewing our enquiry handling capability –** implementing quick wins and standardising the service offered, in order to improve our patients’ experience
- **Reviewing and simplifying end to end processes –** delivering a better customer experience alongside ease of doing business

Our people

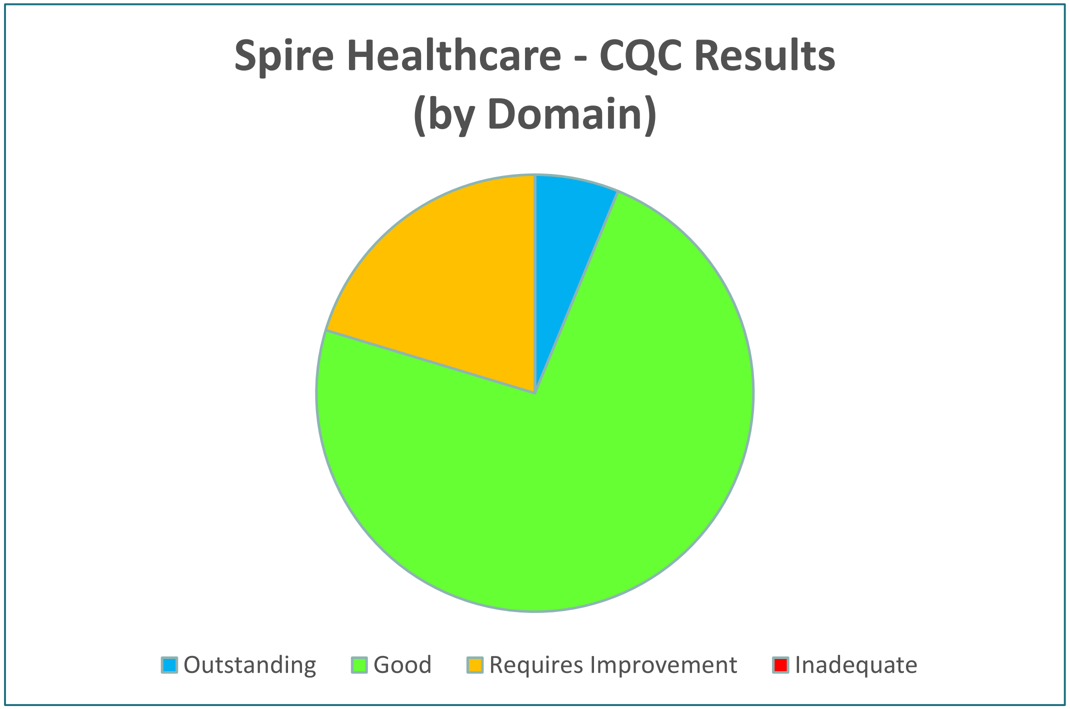
We continue to improve our employee and consultant propositions

- **Reward and benefits –** ensuring pay and benefits benchmark well to deliver retention and be the employer of choice, enhancing recruitment success
- **Competencies and performance –** creating a clinical and non-clinical competency framework to align learning and development
- **'Grow your own' –** ensuring skill mix optimal for the future business profile through apprenticeships and other training
- **Making it easy for consultants to do business with us –** including introducing a consultants app and developing new contracting models for the future

Clinical quality

Care Quality Commission

- All Spire hospitals and 2 clinics have now undergone a CQC or equivalent inspection* - 36 reports published
- **Our facilities are mainly rated 'Good' (22 hospitals & clinics) or 'Outstanding' (2 hospitals)**, with a "Very Good" rating for Spire Murrayfield* and an excellent report for Spire Cardiff**
- **Target is for all our hospitals and clinics to be "Good" or "Outstanding"** at the next inspection



** Spire hospitals in Wales (2) and Scotland (1) have been inspected by local regulators in those countries*

*** In Wales no formal rating is awarded*

Outlook

Revised outlook for FY 2017

- Although trading performance for H1 2017 was in line with expectations, Spire has seen significantly lower than anticipated revenues in July and August 2017 - this recent trend in performance appears to be continuing into early September
- While self-pay revenue growth has remained strong in those months, the primary driver of reduced revenue growth is a decline in NHS e-referral activity caused by recently introduced measures to reduce elective referrals
- Assuming this trend continues for the balance of the year, management expects:
  - H2 2017 revenues to be flat on H2 2016 numbers, and
  - EBITDA margin for FY 2017 to be up to 0.7% lower than the previously guided margin of 16.8%

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Spire's business proposition unchanged

Business Review

Spire remains well positioned to capture a growing share of an expanding UK private healthcare market

Market opportunity arising from persistent and growing demand & supply gap

Well-positioned through a network of well-invested and scalable hospitals

Culture of excellence valued by consultants, GPs, patients and payors

Strong cash flows and balance sheet to finance multiple growth opportunities

Strategic shareholder supports both the business and our growth ambitions

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Questions

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