# 2018 Full Year Results Presentation

28 February 2019




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# Agenda

**2018 Overview**

*Justin Ash, Chief Executive Officer*

**2018 Financial Review**

*Jitesh Sodha, Chief Financial Officer*

**Operations and Strategy Review**

*Justin Ash, Chief Executive Officer*

**Q&A**

# 2018 Overview

*Justin Ash, Chief Executive Officer*

# 2018 Overview

## Strategy affirmed by the challenging environment

- Waiting lists rise but declines in NHS admissions
- Clinical quality is key
  - Department of Health raises pressure on quality
  - Multiple CQC re-inspections begin
  - Insurers probing quality credentials
- Mix shift

- Spire to drive private focus
- Invest in self-pay capability
- PMI share gain
- Maintain NHS share
- Uncompromising on patient safety, governance, and care
- Increase pace on efficiencies

# 2018 Overview

**EBITDA of £119.4m with good strategic and operational progress**

Encouraging growth in Self-Pay and PMI (esp. Q4) offset NHS decline

Savings programme initiated

CQC scores rising rapidly

Capex of £65.2m, major investments made

Leverage at year end 3.67x

Dividend maintained at 3.8p per share

Debt reduced by £9m

Strong staff and consultant engagement sustained, vacancies falling

# Platform Built in 2018

## First Choice for Private Patients, NHS Key Partner

- Central sales and marketing
- Enhanced telephony
- Website relaunch
- Switch to digital enquiry
- PMI central call centre

## Uncompromising on Clinical Quality and Patient Safety

- Enhanced staffing levels (Theatre and Pre-Operative Assessment)
- Robust audit and governance
- Freedom to Speak Up Guardians
- Staff investment

## Future EBITDA Growth, Good Cash Conversion

- Central recruitment and agency cost control
- Cost savings programme / restructuring
- Enhanced PMI
- Enhanced operations controls
- Robust capex control process
- First time positive EBITDA from new hospitals

# Experienced Executive Team Now in Place

**Justin Ash**
Chief Executive Officer

**John Forrest**[i]
Chief Operating Officer

**JJ de Gorter**
Chief Medical Officer

**Shelley Thomas**[ii]
Group HR Director

**Jitesh Sodha**[i]
Chief Financial Officer

**Alison Dickinson**
Group Clinical Director

**Peter Corfield**
Chief Commercial Officer

**Dan Toner**
Group Legal Counsel

**Cora McCallum**[ii]
Investor Relations

*(i) Joined Spire in October 2018.*
*(ii) Joined Spire in February 2019.*

# 2018 Financial Review

*Jitesh Sodha, Chief Financial Officer*

# Financial Headlines 2018

Revenue flat at **£931.1m**
*(2017: £931.7m)*

EBITDA[i] declined to **£119.4m (12.8% margin)**
*(2017: 16.1%)*

Profit Before Tax **£8.2m** (after exceptional items of £25.6m)

Adjusted EPS **6.9p**
*(2017: 14.4p)*

Basic EPS **2.8p**
*(2017: 4.2p)*

Net Debt decreased to **£453.8m**
*(2017: £462.8m)*

Debt facility extended to **2022** with revised covenant calculation

Net Debt / EBITDA **3.67x** (**3.27x** on revised calculation)

Final dividend maintained at **3.8p per share**
*(2017: 3.8p)*



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*(i) EBITDA includes £4.7m in negative adjustments for 'one-off' costs.*

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# Revenue Maintained On The Back of Increasing Private Mix Despite Decline in Overall Admissions

**Group Admissions – 260,083**
*(2017: 269,301 / 3.4% Decrease)*

**ARPC – £2,451**
*(2017: £2,366 / 3.6% Increase)*

**Group Revenue – £931.1m**
*(2017: £931.7m / 0.1% Decrease)*

| Admissions | FY18 (000's) | FY17 (000's) | Change (%) |
|---|---|---|---|
| NHS | 92.7 | 101.5 | (8.7%) |
| PMI | 116.8 | 118.4 | (1.3%) |
| Self-Pay | 47.5 | 46.2 | 2.8% |
| Partnerships | 3.1 | 3.2 | (3.1%) |

| ARPC | FY18 (£) | FY17 (£) | Change (%) |
|---|---|---|---|
| NHS | 2,300 | 2,283 | 0.8% |
| PMI | 2,404 | 2,316 | 3.8% |
| Self-Pay | 2,855 | 2,675 | 6.7% |
| Partnerships | 2,580 | 2,367 | 9.0% |

| Revenue(i) | FY18 (£m) | FY17 (£m) | Change (%) |
|---|---|---|---|
| NHS | 272.2 | 293.3 | (7.2%) |
| PMI | 432.6 | 426.0 | 1.5% |
| Self-Pay | 174.1 | 160.2 | 8.7% |
| Partnerships & Other | 52.2 | 52.2 | 0.0% |

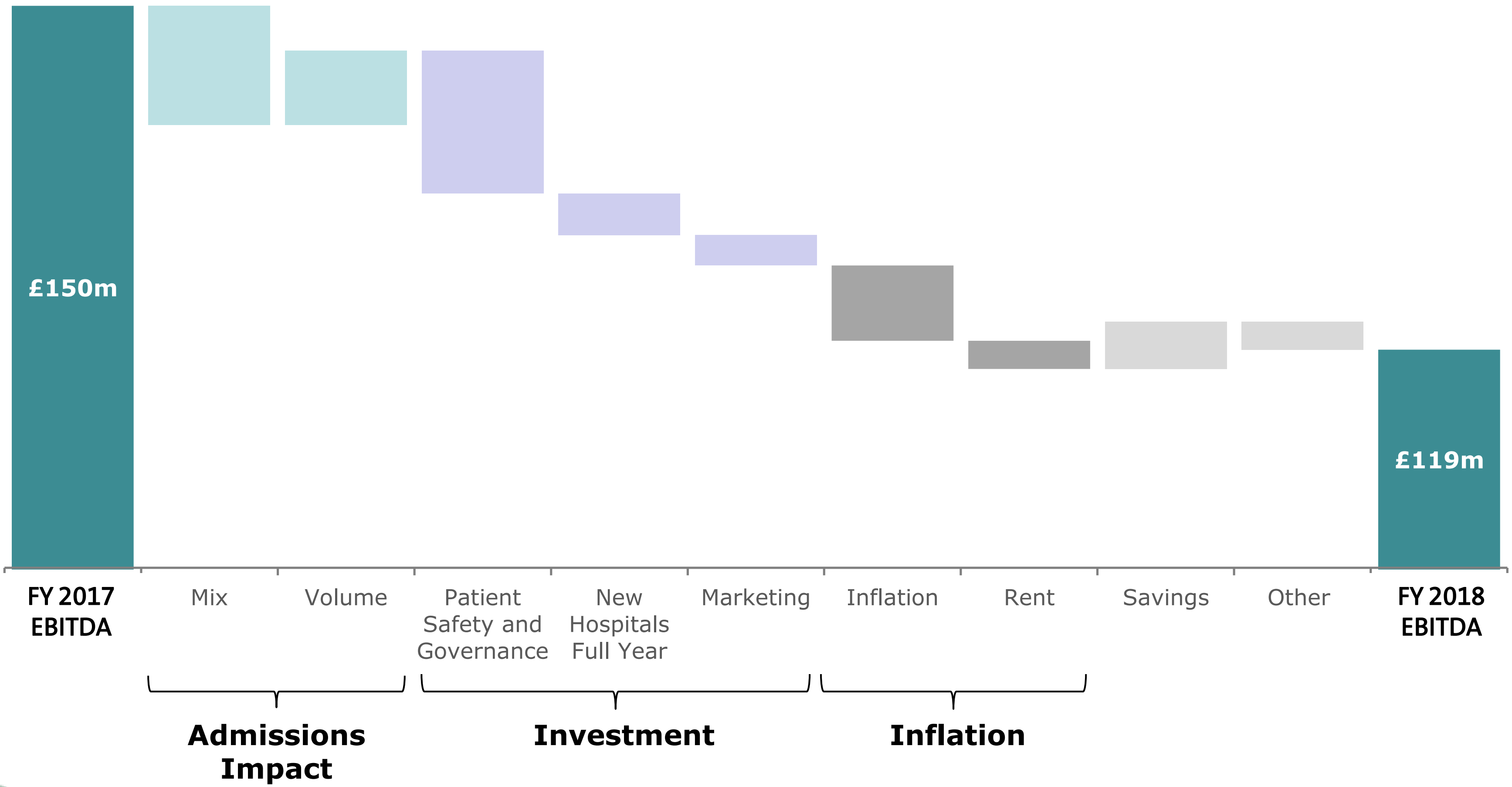
*(i) Revenue includes both IP/DC and OPD*

# NHS Admissions and Revenue

| | Admissions | | | Revenue(i) | | |
|---|---|---|---|---|---|---|
| | 2018 (000's) | 2017 (000's) | Change (%) | 2018 (£m) | 2017 (£m) | Change (%) |
| E-Referral | 84.7 | 89.8 | (5.7%) | 243.3 | 252.1 | (3.5%) |
| Local | 8.0 | 11.8 | (32.1%) | 28.9 | 41.2 | (29.9%) |
| **Total** | **92.7** | **101.5** | **(8.7%)** | **272.2** | **293.3** | **(7.2%)** |

*(i) Revenue includes both IP/DC and OPD*

# Quality Investment Was Planned, Scale of NHS Decline Unexpected



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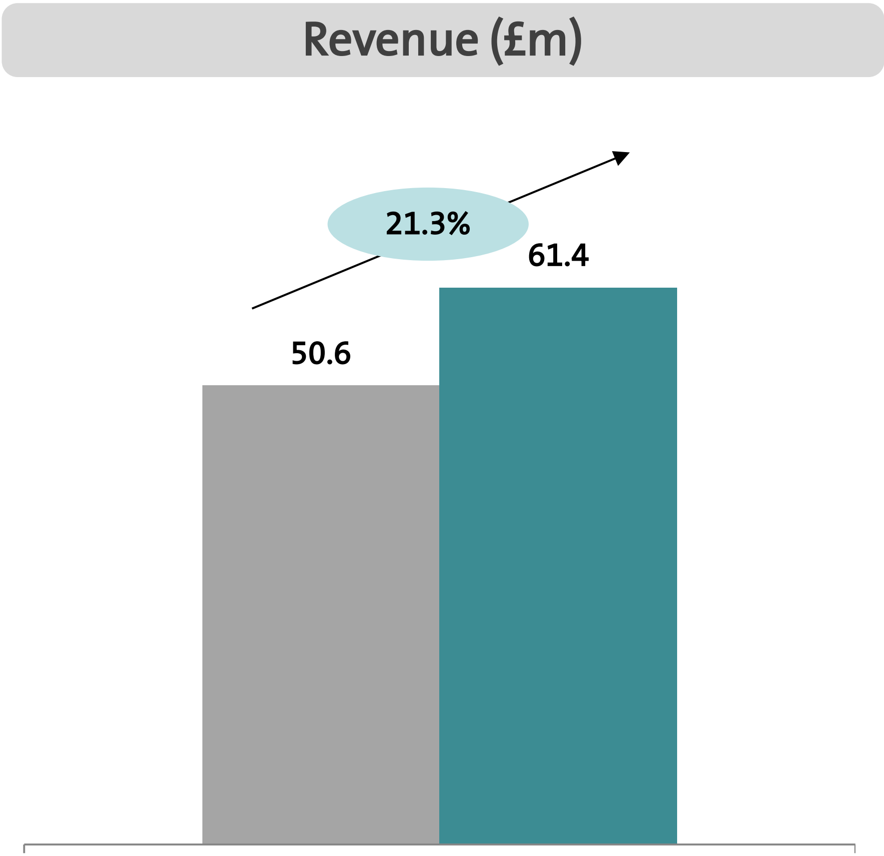
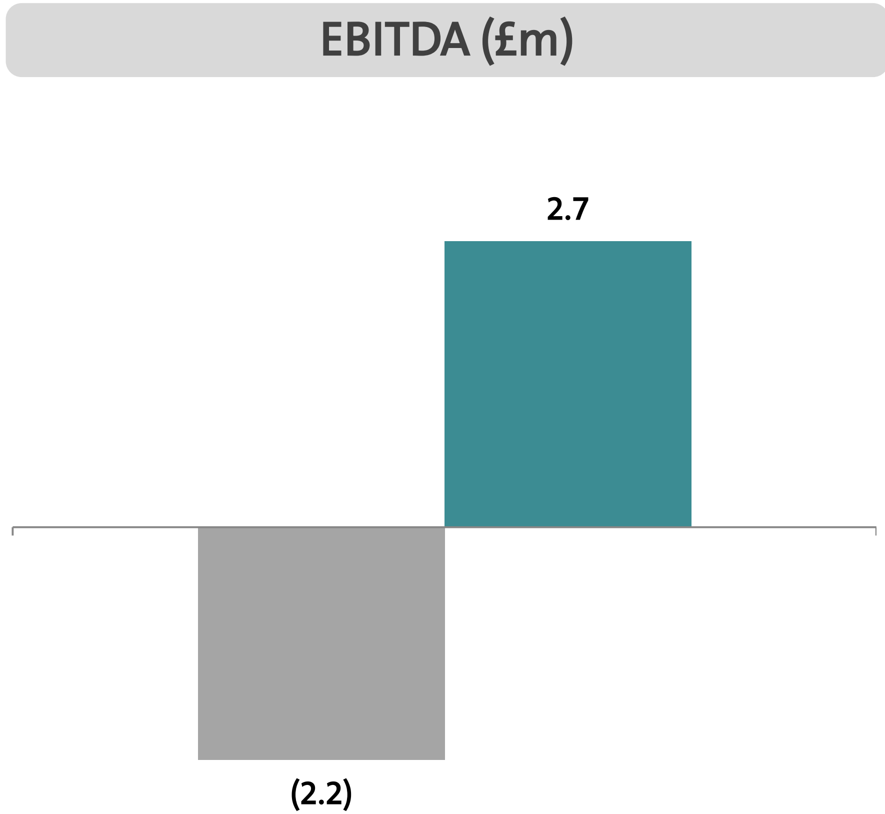
# First Time Positive EBITDA Contribution From New Hospitals

## St Anthony’s, Manchester & Nottingham




FY 2017 FY 2018

# Exceptional Costs

| Exceptional Costs & Other Costs | FY 2018 £m |
|---|---|
| Business reorganisation and restructuring | 4.7 |
| Impairments and write-offs | 17.9 |
| GDPR compliance set-up | 1.5 |
| Other | 1.5 |
| **Total** | **25.6** |

- Exceptional and Other Costs of £49.2m in 2017
- Impairments and write-offs largely relate to H1 2018 impairment of Spire Alexandra Hospital
- Cash payments of **£7.7m** in 2018 for Exceptional and Other Costs (2017: £31.3m)

# Cash Surplus After Capex & Dividends

| | FY 2018 £m | FY 2017 £m |
|---|---|---|
| EBITDA | 119.4 | 150.0 |
| Operating cash flow before exceptionals and tax | 125.4 | 158.4 |
| Capex | (65.2) | (119.9) |
| Exceptional items | (7.7) | (31.3) |
| Financing activities (excl. dividends) | (24.6) | (19.2) |
| Dividends Paid (3.8p per share) | (15.2) | (15.2) |
| Other | (4.2) | (1.5) |
| **Net increase / (decrease) in cash** | **8.5** | **(28.7)** |
| Opening cash | 39.2 | 67.9 |
| **Closing cash** | **47.7** | **39.2** |



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# Adoption of IFRS 16 from 1 January 2019

- Sizeable portfolio of property-related operating leases under IAS 17
- Operating leases recognised as a right-of-use asset relating the leased asset and a liability for the obligation to make lease payments
- Significant impact of IFRS 16 accounting changes due to the size of the Group's property lease portfolio

**PF Operating Profit 18YE – increase by £43m**
**PF Profit Before Tax 18YE – decrease by £14m**

**PF Total Assets 18YE – increase by £602m (incl. deferred tax assets of £44m)**
**PF Total Liabilities 18YE – increase by £648m**

**No Impact on Covenants from IFRS GAAP**

# FY 2019 Outlook

**Return to modest revenue growth, offset by mix and managed cost increases**

| | |
|---|---|
| **Self-Pay** | Positive momentum in admissions and revenue |
| **PMI** | Moderate revenue increase |
| **NHS** | Tariff improvement from April 2019, but volume remains unpredictable |
| **Mix** | Continued shift to oncology and day case |
| **Costs** | Full year effect of investment, inflation, and cost saving initiatives |
| **Capex / Cash** | Approximately £60-65 million, cash positive |

**Measured approach, uncertain NHS market**

# Operations and Strategy Review

*Justin Ash, Chief Executive Officer*

# The Future

"To become the go-to UK independent healthcare brand"

First Choice
for Private Patients,
NHS Key Partner

Uncompromising on
Clinical Quality and
Patient Safety

Future EBITDA Growth, Good
Cash Conversion

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# First Choice for Private Patients, NHS Key Partner

## Background

| | |
|---|---|
| **Growing Private Market** | • Healthcare Consumerisation |
| | • Slight Growth in PMI |
| | • Self-Pay Market Growth |
| **NHS** | • Slow Recovery of NHS Volumes |

*"The NHS will continue to provide patients with a wide choice of options for quick elective care, including making use of available Independent Sector capacity"*

NHS 10-YEAR PLAN, 7TH JANUARY 2019

## Spire plans 2019 and beyond

**What We Are Changing**

- Secure PMI wins
- Develop services and acuity
- Scale up digital marketing
- Spire GP and diagnostic acceleration
- NHS Key Partner

**What We Will Deliver**

- Self-Pay momentum
- PMI share gain
- NHS engagement
- Engaged staff and consultants

# Uncompromising on Clinical Quality and Patient Safety

## Background

Tightening Regulatory Oversight

Heightened Patient Awareness

Quality Drives Referrals

*"Aviva are delighted to collaborate with Spire who share metrics such as hospital level treatment outcomes, experience ratings and feedback. This aligns with our own value-based commissioning strategy to recommend treatment providers based on quality of treatment as well as affordability"*

AVIVA, 8TH FEBRUARY 2019

## Spire plans 2019 and beyond

### What We Are Changing

- Sustain safety / governance gains
- Attract and retain brilliant people
- Build a 'patient first' culture
- Deploy quality management information
- Support system wide progress

### What We Will Deliver

- All CQC Good / Outstanding
- Sector leading outcomes
- Leverage quality to:
  - Support growth
  - Attract and retain clinicians

# Future EBITDA Growth, Good Cash Conversion

## Background

2018 Investment

Medical Inflation, Especially in Staff

Savings Generated in 2018

Strong Operations Leadership

Digitalisation Potential

## Spire plans 2019 and beyond

### What We Are Changing

- Recruitment control and agency reduction
- Further procurement savings
- Drive new hospitals contribution
- Staged digitalisation
- Capex control

### What We Will Deliver

- Return to growth post-2019
- Strong cash conversion
- Manage Brexit risks

# Key Takeaways

| | |
|---|---|
| **2018** | • Challenging year<br>• Strong strategic and operational progress<br>• Investment in business, along with positive cash generation |
| **2019** | • Return to modest revenue growth<br>• Full year effect of investment, inflations, further efficiencies<br>• Focus on cash and debt reduction<br>• Set up for future EBITDA growth |
| **Beyond** | • Well-invested platform for growth<br>• Well positioned for any potential market shake-out |

# Questions

# Today's Q&A Panel

**Justin Ash**
Chief Executive Officer

**Jitesh Sodha**
Chief Financial Officer

**John Forrest**
Chief Operating Officer



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# Appendix

# Spire is the Market Leader

**Spire's well invested platform is perfectly placed for market evolution**

| | | | |
|---|---|---|---|
| **39** Hospitals (20 freehold[i]) | **8** Clinics | **19** Cancer units | **134** Operating theatres |
| **777,000** Patients overall | **260,000** IP/DC Patients | **9,300** colleagues | **7,500** Consultants with PPs |
| **£1.1bn** in property value | **9.1%** of all UK hip and knee procedures[ii] | **19%** of UK private sector revenues[iii] | **23%** of sector revenues ex-London[iii] |

*(i) Recent external valuation of £1.138bn*
*(ii) National Joint Registry – increase compared to 8.9% in 2017*
*(iii) LaingBuisson*

# Trading Margin Analysis

| Costs as % revenues | FY 2018 % | FY 2017 % | Change % |
|---|---|---|---|
| Clinical staff costs | 20.5 | 19.6 | 0.9 |
| Direct costs | 22.4 | 22.1 | 0.3 |
| Medical fees | 10.5 | 11.1 | (0.6) |
| **Cost of sales** | **53.4** | **52.8** | **0.6** |

# Impact of IFRS 16 – Leases

| £ million | As Reported 2018 | IFRS 16 Impact | As Restated 2018 |
|---|---|---|---|
| *Other operating costs – Operating leases* | *66.1* | *(66.3)* | (0.2) |
| *Other operating costs – Depreciation* | *65.1* | *23.8* | 88.9 |
| *Operating profit / (loss)* | *28.6* | *42.5* | 71.1 |
| *Finance income* | *0.2* | - | 0.2 |
| *Finance cost* | *(20.6)* | *(56.3)* | (76.9) |
| *Profit / (loss) before taxation* | *8.2* | *(13.8)* | (5.6) |
| *Taxation – movement deferred tax* | *3.1* | *(2.2)* | 0.9 |
| *Profit / (loss) after taxation* | *11.3* | *(16.0)* | (4.7) |

| £ million | As Reported at 31 December 2018 | IIFRS 16 Impact | As Restated at 31 December 2018 |
|---|---|---|---|
| *Total assets* | *1,712.3* | *558.6* | *2,270.9* |
| *Deferred tax* | *(71.1)* | *43.6* | *(27.5)* |
| *Total liabilities excluding tax* | *(612.5)* | *(647.8)* | *(1,260.3)* |
| *Total equity* | *1,028.7* | *(45.6)* | *983.1* |

The Group expects a decrease in net assets of £29.6m in its opening balance sheet on 1 January 2018 as a result of transition. This comprises Right-of-Use assets of £557.6m, Lease Liabilities of £633.0m, a Deferred Tax asset of £45.8m and a charge of £29.6 to retained profits

# 2022 Extended Debt Facility – Revised Covenant Calculation

- The Group's senior finance facility of £425m + £100m Revolver extended to July 2022
- Currently 3 hospitals out of 19 treated differently - from 1 January 2019 onwards all leases will be treated consistently across the portfolio
- Revised Net Debt / EBITDA calculation to reflect uniform treatment of leases
- Consequential impact of a net debt reduction for covenant purposes by c.£78m and EBITDA by c.£9m

| | Net Debt[i] £m | Current Covenant Calculation[ii] | Revised Net Debt £m | Revised Covenant Calculation |
|---|---|---|---|---|
| Net debt as at 31 December 2017 | 462.6 | 3.09x | 385.8 | 2.72x |
| Net debt as at 30 June 2018 | 456.0 | 3.38x | 379.9 | 3.00x |
| Net debt as at 31 December 2018 | 455.0 | 3.67x | 377.3 | 3.27x |

*(i) For covenant leverage purposes, defined as the Senior Term Loan plus amounts outstanding under finance leases less cash*
*(ii) H1 2018 stated after adjusting EBITDA for one-off costs of £2.3m during H1 2018, FY 2018 stated after one-off costs of £4.7m*