



Spire Healthcare



2017 Financial Year Results  
Presentation

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*Justin Ash, CEO*





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## 2017 Overview

*Garry Watts, Chairman*





## A challenging year for Spire but our new CEO has a clear blueprint for growth and investment in the future

- **Senior management changes**
- **A challenging year for Spire**
  - Another change in NHS in H2 with eReferral flat vs 10% growth in H1 and local contract work also significantly down
  - An approach from Mediclinic to acquire the Company
  - Acknowledgement that our plans for a Central London hospital and for an extended cancer clinic proposition were not viable
- **However.....**
  - All CQC inspections carried out in 2017 resulted in “Good” or “Outstanding”
  - We opened two state of the art hospitals in Manchester and Nottingham – while recognising that our new-builds will take 3 years to reach their target rates of return
  - In September we resolved the Ian Paterson civil litigation
  - In October we announced the appointment of Justin Ash as our new CEO



## Revenue & EBITDA

- **Revenue** up overall by 0.6% on 2016 to £931.7m, with underlying revenue growth of 1.0%
  - Strong growth in Self Pay revenue of 12.0% - now 19.4% of all revenues (2016: 17.7%)
- **EBITDA** (underlying) declined to £152.2m, at a margin of 17.3% (2016: 18.3%)
- Revenue developments:
  - Launch of Spire GP, hospital based primary care
  - Roll-out of a Direct Booking Portal, which allows PMI customers to book online into consultants' clinics
  - Formalised network approach to Spire's offering of a range of paediatric services
  - At St Anthony's, re-engineered clinical staff cost base, attracted new consultants and began to regrow Self-pay business

## Cashflow, Capex and Net debt

- **Excellent cash conversion** of EBITDA – 105.6% in 2017, third successive year >100%
- **Net debt** increased modestly despite £119.2m of capital expenditure to finalise existing projects
- **Dividend** maintained at 3.8p per share (2016: 3.8p)
- Major investment projects included:
  - Two major hospitals opened - Spire Manchester (January 2017), Spire Nottingham (April 2017)
  - Spire Methley Park Hospital – expanded theatre, and creation of a new day care suite
  - Spire Bushey Hospital – satellite diagnostic centre with 14 consulting/ diagnostics rooms incl. a 2<sup>nd</sup> MRI
  - Spire Cambridge Hospital - day care ,endoscopy suites
- Milton Keynes new hospital project on hold

**Spire is the largest UK independent hospital group by Revenues and EBITDA, with a comprehensive network of quality healthcare assets and services**

**39 hospitals,  
11 clinics and 1  
cancer centre**

**69% of  
hospitals rated  
“Good”  
or  
“Outstanding”**

**134 operating  
theatres &  
1,800 patient  
beds**

**98% of patients  
rate “Excellent”  
or “Very Good”**

**8,380 FTE  
staff and 3,900  
consultants**

**269,300  
IP and DC  
admissions**

**775,000  
patients  
(IP, DC and OP)**

**9.1% of all UK  
hip & knee  
procedures**



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## 2017 Financial Review

*Andrew Goldsmith, Head of Finance*





## Key drivers in 2017 delivering performance in line with revised guidance

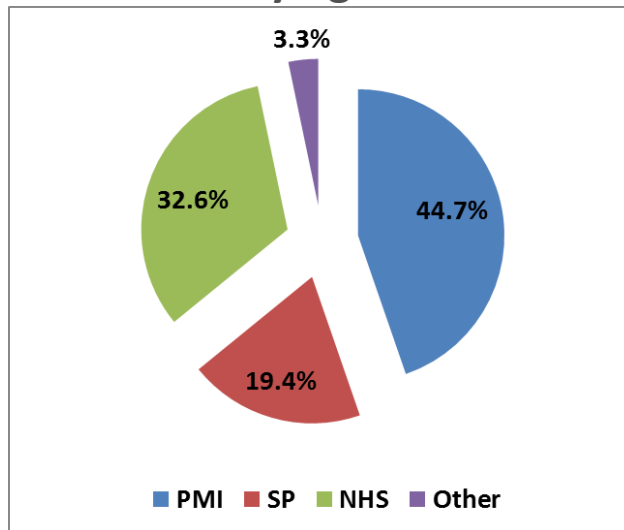
- Revenue up overall by 0.6% on 2016 to £931.7m with strong underlying growth in Self-Pay
- Although In-patient and Daycase admissions fell 1.8% to 269,300, average revenue per case increased (again) across our payor groups
- Spire's share of all UK hip and knee procedures increased to 9.1% (2016: 8.8%)
- EBITDA (underlying) declined to £152.2m, at a margin of 17.3% (2016: 18.3%)
  - Impact of NHS tariff reductions on EBITDA margin was 0.8%
- Strong capital investment continued with £119.2m of spend (2016: £149.9m)
- Excellent cash conversion of EBITDA – 105.6% in 2017, third successive year >100%
- Net debt increased modestly despite £119.2m of capital expenditure in the period
- Dividend maintained at 3.8p per share (2016: 3.8p)

- **Spire St Anthony’s** – underwent significant cost base restructuring in H1 2017, and NHS local contract losses of £4m
- **Spire Manchester** – transitioned from original site to new site during January 2017, and new site in ramp-up phase
- **Spire Nottingham** – opened in April 2017 and in ramp-up phase
- **Lifescan** – product withdrawn in H2 2016, some Self Pay revenue loss

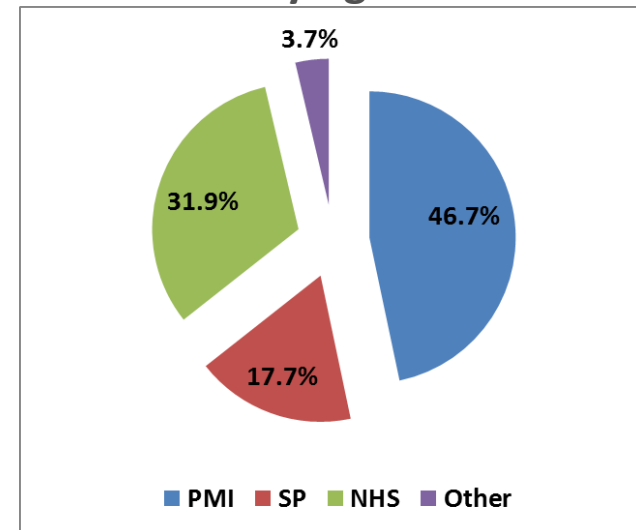
EBITDA	2017 £m	2016 £m
Spire St Anthony’s	(1.2)	(2.1)
Spire Manchester	2.3	3.9
Spire Nottingham	(3.3)	-
Lifescan	-	0.5
<b>Total EBITDA</b>	<b>(2.2)</b>	<b>2.3</b>

	2017 £m	2016 £m	Growth %
Underlying Revenue	881.1	872.1	1.0%
<i>Non-Underlying Revenue</i>	50.6	54.3	(6.8)%
Group Revenue	931.7	926.4	0.6%

2017 Underlying Revenue mix



2016 Underlying Revenue mix



	2017 £m	2016 £m	Growth %
<b>Underlying EBITDA</b>	<b>152.2</b>	<b>159.7</b>	<b>(4.7)%</b>
<i>Non-Underlying EBITDA</i>	<i>(2.2)</i>	<i>2.3</i>	<i>-</i>
Group EBITDA	150.0	162.0	(7.4)%

	2017	2016
<b>Underlying EBITDA margin</b>	<b>17.3%</b>	<b>18.3%</b>
<i>Non-Underlying EBITDA margin</i>	<i>(4.4)%</i>	<i>4.2%</i>
EBITDA margin	16.1%	17.5%

Revenues	2017 £m	2016 £m	Underlying growth %	Total Group growth %
PMI	394.9	401.1	(1.6)%	(0.8)%
Self pay	175.4	156.6	12.0%	9.6%
NHS	281.2	282.6	(0.5)%	(1.9)%
Other	29.6	31.8	(6.8)%	(6.3)%
<b>Total revenues</b>	<b>881.1</b>	<b>872.1</b>	<b>1.0%</b>	<b>0.6%</b>

Admissions	2017 '000s	2016 '000s	Underlying growth %	Total Group growth %
PMI	111.0	116.4	(4.6)%	(4.1)%
Self pay	46.7	43.9	6.5%	6.4%
NHS	99.3	101.1	(1.8)%	(2.5)%
<b>Total admissions</b>	<b>269.3</b>	<b>274.1</b>	<b>(1.8)%</b>	<b>(1.7)%</b>

Underlying revenues	2017 £m	2016 £m	Growth %
eReferral	241.9	229.4	5.5%
NHS Local Contract	39.2	53.1	(26.2)%
<b>NHS total revenues</b>	<b>281.2</b>	<b>282.6</b>	<b>(0.5)%</b>

Underlying revenue growth rate	H2 2017 %	H1 2017 %	H2 2016 %
eReferral	0.9%	10.2%	15.6%
NHS Local Contract	(41.6)%	(11.7)%	18.3%
<b>NHS total revenues</b>	<b>(6.8)%</b>	<b>5.9%</b>	<b>16.0%</b>

# Revenue bridge by payor – Underlying

Underlying revenues	2016 £m	Volume £m	Rate £m	OPD £m	2017 £m
PMI	401.1	(11.9)	6.4	(0.7)	394.9
Self pay	156.6	7.6	8.5	2.7	175.4
NHS	282.6	(4.1)	2.8	(0.1)	281.2
<b>Totals</b> (Group revenue excl. other revenues)	<b>840.3</b>	<b>(8.4)</b>	<b>17.7</b>	<b>(1.9)</b>	<b>851.5</b>

Day case % admissions	2016 %	2017 %
PMI	76.2%	77.2%
Self pay	57.5%	58.3%
NHS	74.0%	74.0%
<b>Totals</b>	<b>72.3%</b>	<b>72.6%</b>

<b>Costs as % revenues - Underlying</b>	<b>2017 %</b>	<b>2016 %</b>
Clinical staff costs	18.8%	18.1%
Direct costs	21.9%	21.7%
Medical fees	11.1%	11.7%
<b>Cost of sales</b>	<b>51.8%</b>	<b>51.5%</b>

<b>Costs as % revenues – Underlying</b>	<b>2017 %</b>	<b>2016 %</b>
<b>Gross margin</b>	<b>48.2%</b>	<b>48.5%</b>
Hospital & corporate overheads	23.6%	23.0%
Rent	7.3%	7.2%
<b>EBITDA margin</b>	<b>17.3%</b>	<b>18.3%</b>



Exceptional Costs	2017 £m
Paterson settlement and related	28.7
Baddow Treatment Centre	11.1
Hospital Set-Up and Closure Costs	3.4
Strategic Review	3.3
Other	2.2
<b>Total</b>	<b>48.7</b>

*Note: Additional to the above, £500k of costs associated with initial phase of achieving GDPR compliance recognised as “Other” costs in 2017. Management’s best view is a further £4-5m of costs could be incurred during 2018*

	2017 £m	2016 £m
Operating cash flow before exceptionals and tax	158.4	186.3
Exceptional items	(31.3)	(5.9)
Taxation	(3.1)	(3.0)
Net cash used in investing activities	(118.3)	(149.9)
Net cash used in financing activities	(34.4)	(38.5)
<b>Net increase / (decrease) in cash</b>	<b>(28.7)</b>	<b>(11.0)</b>
Opening cash	67.9	78.9
<b>Closing cash</b>	<b>39.2</b>	<b>67.9</b>

	£m	Adj. EBITDA leverage
Net debt as at 31 December 2017	462.8	3.09x
Net debt as at 31 December 2016	432.3	2.67x



	2017 £m	2016 £m
Operating cash flow before exceptionals and tax	158.4	186.3
EBITDA	150.0	162.0
<b>Cash conversion of EBITDA</b>	<b>105.6%</b>	<b>115.0%</b>



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## The Spire Opportunity

*Justin Ash, Chief Executive Officer*



**Sector  
& Spire  
today**

**Vision  
for  
Spire**

**Outlook  
for  
2018**

**Opportunity  
for  
2022**

## The sector opportunity is substantial and Spire now has the strategy to seize it

- Demand for UK healthcare provision will continue to rise rapidly
- NHS waiting lists (especially for elective work), rationing and restrictions are growing
- Increasingly people are becoming informed consumers of, and prepared to pay for, healthcare, with choices digitally enabled
- The sector itself is fragmented and variable in size, strength and quality
- Spire remains the market leader by Sales and EBITDA, and is well placed to grow and consolidate its leading position

## Spire is well run – and will benefit from stronger operational focus

### ■ Overall

- Well run, good hospital infrastructure
- Well funded/cash generative
- Operational upside

### ■ Clinical Quality

- 69% CQC scores “Good”/ “Outstanding”
- Strong clinical team and protocols

### ■ Customer Service

- Good overall scores (98% Friends and Family)
- Varies by site and patient journey

### ■ Growth

- Good Self-Pay growth; Improvement potential
- NHS well-managed in volatile market

### ■ Consultants

- Strong clinical base of 3,900 consultants
- Good relationships; room to strengthen

### ■ Team and Culture

- Skilled teams and engagement (81%)

### ■ Processes

- Strong finance KPIs and cost control
- Standardisation potential



**“To become the go-to UK  
independent healthcare brand,  
famous for clinical quality and  
customer care”**





## Strategic goals

- Become **Famous for Quality & Clinical Care**
  - Drives referrals and customer perception
- **Most Recommended Customer Experience**
  - Build local and digital advocacy
- **First Choice for Private Patients**
  - Access to faster diagnostics
  - Affordable quality care

## Key enablers

- Become **Best Place to Practise**
  - Consultant supply drives growth
- Become **Best Place to Work**
  - Talent and leadership are key to success
- Deliver **Operational Excellence**
  - Standardise and improve, invest in core business, raise returns

Focused Capex and additional P&L investment of £6m in 2018 to drive growth

## What clinical and operational excellence will deliver

- Leadership in clinical quality and customer care
- Growth through Private
- Lower Capex, focus on developing & optimising existing sites
- More consistent and reliable performance
- Improved future net cash flow – for investment, decreased leverage and/or increased shareholder return

## NHS

**Market:** cost management/triage by Trusts will reduce overall market; although eReferrals should grow

**Spire:** act as supportive partner and offer capacity selectively

Hold  
share

## PMI

**Market:** volumes likely flat or slightly down, with increase in Average Revenue Per Case

**Spire:** continue strong central relationships, improve local consultant engagement, raise clinical and quality credentials

Share  
gain

## Self-Pay

**Market:** growth to continue, with consumer demand rising as NHS waiting lists and rationing increase

**Spire:** invest in brand proposition, distribution, telephony and marketing capability

Share gain and  
10% + p.a. growth

## Spire Manchester



- CQC inspection awaited
- Improve consultant support, attract new consultants
- Improve marketing and drive private

**Improved profitability**

## Spire St Anthony's



- "Good" CQC now awarded
- Re-engineered clinical staff cost base
- Attract new consultants and drive private

**Profitable**

## Spire Nottingham



- CQC report awaited
- Target key new consultants
- Drive Private & explore local NHS partnerships

**Good progress**

## 2018

### Complete commitments; invest in Private

- Total 2018 Capex budget of £100m (net) (2017: £120m)
- Continuous upgrade Capex of c.£55m, including 8 diagnostic replacements /upgrades
- Development Capex of c.£30m (net), including extensions to existing sites
- Private market acceleration actions: c.£15m

## 2019 onwards

### Investment in existing estate

- Upgrade of Private environment and assets (e.g. diagnostics)
- Capacity extensions where Private opportunity exists
- High cost development projects cancelled
  - Central London
  - Spire radiotherapy centres
- Milton Keynes hospital project on hold

## Full year 2018 EBITDA outcome expected to be in line with 2017

- Payor group expectations for 2018:
  - Self-Pay: Continued strong growth
  - PMI: Broadly flat
  - NHS: eReferral flat (including tariff effect), Local Contract work further declines from H2 2017 through H1 2018 - both subject to any policy changes caused by further demand management
- New hospitals: Improved performance expected, especially in H2 2018
- Strategic P&L investment of £6m to drive long term revenue growth, evenly spread through 2018
- Overall, slight decline in Group EBITDA margin on underlying business
- Weighting between H1 and H2:
  - H1 2018 likely to decline year-on-year due to 3 month tariff effect and NHS volumes
  - H2 2018 to compensate helped by tariff and new hospitals' performance

Overall, a steady year with a focus on building the strategic platform

Key priority	Measure	2017 Actual	2022 Vision
Famous for Clinical Quality	Good/Outstanding PHIN data quality	69% N/A	<b>100%</b> Leading sector
Most Recommended	Friends & Family "Extremely likely"	98% 85%	<b>100%</b> 95%
First Choice for Private Patients	Self-Pay Growth % Private Revenue	12% p.a. 69%	>10% p.a. <b>80%</b>
Financial Performance	Revenue EBITDA	£931m £150m	£1,200m <b>£200m</b>

**Clinical Quality/  
Customer Care**

=

**100%**

**Annual  
EBITDA**

=

**£200m**

**Private  
revenues**

=

**80% of total**





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# Questions



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# 2017 Financial Year Results Presentation