Spire Healthcare reports its results for the year ended 31 December 2023

London, UK, 29 February 2024, Spire Healthcare Group plc (LSE: SPI) ('Spire Healthcare', 'the Group' or 'the Company'), a leading independent healthcare group in the UK, today announces its preliminary results for the year ended 31 December 2023 ('the period' or 'FY23').

Strong full year performance and confident of future growth

Summary group results for the year ended 31 December 2023

	Year ended 31 December		
£m	2023	2022	Variance
Revenue	1,359.0	1,198.5	**13.4%**
Adjusted operating profit (Adjusted EBIT)	130.4	105.6	**23.5%**
Adjusting items included in operating profit	(4.2)	(10.2)	NM
Operating profit	126.2	95.4	**32.3%**
Profit before taxation	34.6	3.9	NM(1)
Profit after taxation	27.9	8.2	NM
Basic profit per share, pence	6.8	2.1	**NM**
Adjusted profit per share, pence (2)	7.9	4.2	88.1%
Adjusted EBITDA (3)	234.0	203.5	**15.0%**
Adjusted FCF (4)	48.0	28.0	71.4%
Net bank debt (5)	315.7	250.1	**26.2%**
Net bank debt / EBITDA covenant ratio	2.2	2.2	-

1. Not meaningful
2. Adjusted profit / (loss) per share is stated before the effects of Adjusting Items.
3. Adjusted EBITDA is calculated as Operating Profit, adjusted to add back depreciation, and Adjusting items, referred to hereafter as 'Adjusted EBITDA' refer to page 11. For EBITDA for covenant purposes, refer to note 17.
4. Adjusted FCF (Free Cash Flow) is calculated as Adjusted EBITDA, less rent, capital expenditure cash flows and changes in working capital after adjusting for one-off items which are not related to the normal trading activity of the business. Rent cash flows are defined as interest on, and payment of, lease liabilities. Capital expenditure cash flows are defined as the Purchase of plant, property and equipment.
5. Net bank debt is defined as bank borrowings less cash and cash equivalents.

Financial and operating highlights

Strong financial performance with revenue and earnings significantly ahead of prior year

- Revenue(6) up 13.4% vs FY22 to £1,359.0m, driven by increasing demand for private healthcare
- Private revenue up 9.5% vs FY22 to £959.7m (FY22: up 14.5%), with strong growth in PMI
- Adjusted EBIT up 23.5% vs FY22 to £130.4m and Adjusted EBITDA up 15.0% vs FY22 to £234.0m
- Operating profit up 32.3% vs FY22 to £126.2m, delivered in a period of macroeconomic uncertainty and in an inflationary environment
- For the Hospitals Business (6) revenue up 10.8% vs FY22, Adjusted EBITDA margin increased to 17.6% (FY22: 17.0%)
- ROCE(7) increased to 7.5% (FY22: 6.2%)
- Net bank debt / EBITDA covenant ratio maintained at 2.2x at 31 December 2023 (end FY22: 2.2x) after acquisition of Vita Health Group
- Recommended final dividend of 2.1 pence per ordinary share (FY22: 0.5 pence per ordinary share)

Continued development of the business in line with strategy

- 98% of inspected locations currently rated 'Good' or 'Outstanding' by regulators in England, Scotland and Wales (end FY22: 98%)
- Acquired Vita Health Group, a provider of mental and physical health services in England, for a net cash consideration of £73.2m (see note 24)
- £15m cost savings achieved as planned; another £60m targeted by the end of 2026, of which at least £15m will be targeted in 2024
- £84.4m capex (FY22: £90.1m), including a new outpatients and diagnostic centre at Yale, cardiac services at Manchester and Nottingham, and investment in new clinics at Abergele and Harrogate
- Progress towards target of becoming net carbon zero by 2030

6. Unless otherwise stated numbers quoted refer to the Group. The Hospitals Business relates to business operations performed at hospital sites. All other Group operations are referred to as 'New Services' and include the Doctors Clinic Group (DCG), Vita Health Group (VHG) and the clinics. Revenue and earnings from New Services were not material in FY23. From FY24, New Services will be presented separately. Refer tp page 11 for alternative performance measures.
7. Return on capital employed (ROCE) is the ratio of the group's Adjusted EBIT to total assets less cash, capital investments made in the last 12 months and current liabilities. The ROCE outcome includes the impact of the acquisition of Vita Health Group (VHG) in October 2023 and is stated after taking its actual profit contribution to the Group for the period to 31 December 2023, adjusting for a full year effect to annualise the effect of VHG as it has not contributed a full 12 month EBIT to the Group. Refer to page 12.

Current trading and outlook

Since the year end, Spire Healthcare has continued to trade in line with management expectations. Management remains confident of reaching the medium-term targets that were set at the Group's Capital Markets Day in 2022.

In 2024, the Group is planning for another year of strong overall demand. Private Medical Insurers (PMIs) are reporting strong increases in policies written, particularly in corporate, and Spire management expects this trend to continue. Management believes this will result in more outpatient activity, which often leads to more inpatient and daycase treatment.

Management anticipates modest self-pay (SP) revenue growth in 2024, driven mainly by average revenue per case (ARPC) and mix management. The Company is observing certain patients who had previously visited as self-paying customers now coming to Spire hospitals with PMI coverage, and we anticipate that this trend will continue.

The Group's NHS work saw strong growth in 2023, and in the period ahead, there could be increased commissioning. Spire Healthcare continues to be well placed to help the NHS address record waiting lists.

Spire is targeting another year of strong EBITDA growth, with Adjusted EBITDA guided to be in the range £255m to £275m for the current financial year. This includes an EBITDA contribution from VHG of c.£10m and more than £100m revenue, as previously disclosed. The actual Group outcome will depend on a number of factors. Supporting factors include growth of the private business, acceleration of digitalisation/ savings, new services and NHS commissioning. Potential factors which may impede the Group's progress include consumer sentiment, the economy, excessive inflation, high incidence of respiratory illnesses and NHS budgetary constraints.

Justin Ash, Chief Executive Officer of Spire Healthcare, said:

"This is a strong set of results, delivered during a period of macroeconomic uncertainty and in an inflationary environment, demonstrating that our strategy and execution is working. The high-quality diagnosis and treatment we provide in our hospitals continued to meet the demand for fast access to care throughout 2023, while we broadened our range of services to meet more of people's healthcare needs out-of-hospital, in the community and at home. This enabled us to care for over one million patients for the first time, over the year.

"Our number one priority will always be quality of care and patient safety, which underpins our market penetration and consultant support. We have demonstrated that we can keep this focus whilst driving efficiencies, generating profit and margin improvement, and delivering long-term shareholder value. Our strong financial performance in 2023 and our confidence in the future, underpins the board's recommendation of a full year dividend of 2.1 pence per share, up significantly over the prior year. I thank all our colleagues and consultant partners for their tremendous contribution.

"2024 will be a key year as we continue to transform the business. Through our programme of investments in digital platforms, we will be driving further change and improvement, benefiting patients and colleagues, and generating significant efficiencies. Our new services will become material contributors to our operations and financial results, as we strive to provide a more integrated healthcare offering. I am excited about our prospects for 2024 and look forward to contributing in even greater measure to the nation's health in the year ahead."

The person responsible for making this announcement is:

Philip Davies, Company Secretary

For further information please contact:

Spire Healthcare **+44 (0)20 7427 9000**
Angus Prentice – Director of Investor Relations

Instinctif Partners **+44 (0)20 7457 2020**
Damian Reece
Guy Scarborough

Registered Office and Head Office:

Spire Healthcare group plc
3 Dorset Rise
London
EC4Y 8EN

Registered number 09084066

About Spire Healthcare

Spire Healthcare is a leading independent healthcare group in the United Kingdom, with 39 hospitals and over 50 clinics, medical centres and consulting rooms across England, Wales and Scotland. It operates a network of private GPs and provides occupational health services to over 800 corporate clients.

Working in partnership with over 8,600 experienced consultants, Spire Healthcare delivered tailored, personalised care to over one million inpatients, outpatients and daycase patients, and occupational health programme clients, in 2023, and is the leading private provider, by volume, of knee and hip operations in the United Kingdom. It also delivers a range of private and NHS mental health, musculoskeletal and dermatological services.

Spire Healthcare's well-located and scalable hospitals have delivered successful and award-winning outcomes, positioning the group well with patients, consultants, the NHS, GPs and Private Medical Insurance ('PMI') providers. 98% of Spire Healthcare's inspected locations are rated 'Good,' 'Outstanding' or the equivalent by health inspectors in England, Wales and Scotland.

Spire Healthcare is listed on the London Stock Exchange and is a member of the FTSE 250.

Cautionary statement

This announcement contains certain forward-looking statements relating to the business of Spire Healthcare Group plc (the "company") and its subsidiaries (collectively, the "group"), including with respect to the progress, timing and completion of the group's development, the group'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 group's estimates for future performance and its estimates regarding anticipated operating results, future revenue, capital requirements, shareholder structure and financing. In addition, even if the group's actual results or development are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of the group'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 group's current expectations as of the date of this announcement 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 group'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, risks arising out of health crises and pandemics, changes in tax rates, future business combinations or dispositions, and the group'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 in this announcement 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 this announcement.

The group is providing the information in this announcement 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.

Analyst and investor meeting

There will be an analyst and investor meeting today at 9.00am. Please register in advance for the live webinar of the meeting through the following link: https://spirehealthcare.zoom.us/webinar/register/WN_M9WnWjkDRzWqDVic-IA8VQ

The webinar will be available for replay following the meeting through the company's investor website: https://investors.spirehealthcare.com/home/

Operating review

Overview

Spire Healthcare delivered strong financial and operational performance during 2023, producing a year of profitable growth. All headline metrics rose materially year-on-year (YOY) with increases in revenue, volume, average revenue per case (ARPC), EBITDA, EBIT and PBT. The performance was in line with management's expectations and delivered against a background of high inflation and economic complexity. The Group's ongoing focus on cost management, with c.£15m saved during the year, resulted in a strong YOY profit growth, with Adjusted EBITDA of £234.0m (FY22: £203.5m) and profit before tax of £34.6m (FY22: £3.9m).

Revenue in FY23 was up 13.4% to £1,359.0m (FY22: £1,198.5m), driven by increasing demand for private healthcare, which remained strong throughout the year. Admissions were up by 5.3% to 276,705. 2023 saw particularly high demand from private medical insurance (PMI) patients. The Group's self-pay (SP) business remained robust with volumes exceeding pre-pandemic levels. SP revenue was up YOY, delivered through a strong focus on mix, where it targeted more complex, higher margin treatments in orthopaedics, while scaling back in areas such as cosmetics.

Going forwards, the Group will present numbers separately for its Hospitals Business and New Services - Vita Health Group (VHG), Doctors Clinic Group (DCG) and the clinics. The New Services, VHG in particular, have lower EBITDA margins but because they have lower capex requirements, they will have good flowthrough to PBT. Adjusted EBITDA margin for the Group's Hospitals Business was 17.6%, up 0.6ppts compared to prior year. The Group's cost base in 2023 included £6m of IT costs that relate to cloud-based products that are not capitalised. Adjusted EBIT margin for the Hospitals Business was 9.9% for the period, up from 8.8% in FY22. Spire management has now laid the platform for further margin development to achieve the Group's medium-term Adjusted EBITDA margin target of at least 21% and Adjusted EBIT margin target of more than 13% for its Hospitals Business.

Occurrences of COVID-19 and other respiratory illnesses do still occur, affecting patients, colleagues and consultants, but are now part of normal business and we are managing the associated costs accordingly. The ongoing shortage of skilled healthcare workers in the UK and around the world showed little signs of abatement during the period but we continue to manage this well. It is particularly pleasing to note that staff turnover fell and colleague engagement scores increased YOY at Spire Healthcare.

The Group responded well to the external environment in the period. Despite high UK inflation prevailing through most of 2023, affecting input costs and wages, Spire succeeded in growing the business and increasing profits through careful management of pricing, mix and cost management.

Further good progress was made during 2023 to implement the strategy to expand the Group's healthcare offering. In October 2023, Spire Healthcare acquired VHG for a net cash consideration of £73.2m. VHG is the largest independent NHS talking therapies provider and delivers musculoskeletal and dermatology services, as well as corporate and occupational health services. The integration of DCG, a provider of occupational health and GP services, which we acquired towards the end of 2022, continued during 2023, together with the rollout of the Group's new clinics. As the Group's broader healthcare offering continues to be developed, income from this area will become increasingly material to the Group's performance.

The Group is pleased to announce a recommended final dividend of 2.1 pence per share (FY22: 0.5 pence per share), reflecting the Board's confidence in the long-term prospects of the business.

Managing the business successfully against a backdrop of inflation and economic complexity

The Group delivered a strong performance across almost every area of the business in 2023. Revenue and earnings grew YOY, which was particularly creditable given a backdrop of high inflation affecting input costs and wages. Adjusted EBIT rose by 23.5% to £130.4m during FY23 compared to prior year and Adjusted EBITDA by 15.0% to £234.0m. For the Hospitals Business, Adjusted EBITDA was up 14.8% vs FY22 to £233.8m and Adjusted EBITDA margin increased to 17.6%.

Group Profit before tax for FY23 was £34.6m, up significantly on the £3.9m recorded in FY22.

Spire Healthcare delivered cost savings of c.£15m during 2023 as planned. Key cost-saving initiatives included the refinement of best practice establishment models for hospital operations, the ongoing reorganisation of hospitals into hubs, sharing of resources and procurement savings. Improvements in productivity enabled us to reduce FTE per admission. Another £60m of cost savings is targeted by the end of 2026, of which at least £15m will be targeted in 2024.

The Group continues to benefit from energy commodity prices fixed in 2021 until Q3 2024, and management anticipates an additional £2m of expenditure in Q4 24 when these lapses.

As a people business, the support and investment in Spire Healthcare's workforce is critical to the health of the Group's business and to delivering good patient outcomes. Wage rate pressure remains an ongoing consideration for Spire Healthcare and for healthcare services in the UK more broadly. Several workforce initiatives were initiated or continued during 2023 (further detail below) and this led to a YOY improvement in staff retention and an increase in colleague engagement. The Group also benefited from a reduction on the use of agency staff per admission.

Overall, management believes that the benefits secured from the above actions, combined with the strategic focus on securing more complex work and the Company's ability to adjust SP pricing and PMI pricing contractual arrangements, provide adequate self-help levers to enable the Group to prosper and deliver profitable, sustainable growth.

Strong cash conversion enabling ongoing capex investment and M&A

Net bank debt at 31 December 2023 was £315.7m (vs £250.1m at 31 December 2022), with a cash balance of £49.6m (vs £74.2m at 31 December 2022). The increase in net bank debt over the period reflects the acquisition of VHG financed by a combination of cash and debt. The Group entered an interest rate hedge in July 2022, resulting in 75% of the risk from the senior loan facility being mitigated until April 2024, after which 50% will be hedged until February 2026. The Group's funding facilities were extended by one year to February 2027.

Net debt / Adjusted EBITDA covenant ratio remained flat at 2.2x as at 31 December 2023 and 2022, even though bank debt has increased due to the acquisition of VHG.

The Group continued to be cash generative during the period. Cash inflow from adjusted operating activities during the period was £228.2m (FY22: £188.1m) which constitutes a cash conversion rate of 98% (FY22: 92% conversion).

Capital investment in FY23 was £84.4m (FY22: £90.1m), in line with the Company's full-year target range of 6-7% of revenue. Investment in the year includes the new outpatients and diagnostic centre at Yale, investment into cardiac services at Manchester and Nottingham, ophthalmic services at Cambridge, our new clinics, continued major hospital refurbishment programmes and investment in new equipment, including further roll-out of robotic surgical capability.

The strong operational performance of Spire Healthcare in the period resulted in Adjusted EBIT rising by 23.5% YOY to £130.4m, leading to a material improvement in ROCE, up by 1.3ppts to 7.5%. (The ROCE has been adjusted for VHG to reflect that it has not contributed a full 12 month trading result to the Group's consolidated financial results.)

Our market

The demand for private healthcare – from GP and diagnostic services to hospital treatment, occupational health and talking therapies - remained strong in 2023, with patients seeking prompt, safe and effective diagnosis and treatment. Demand from SP patients continues to significantly exceed pre-pandemic levels, while the growth in the PMI business is being driven by increased awareness among employers and employees of its benefits in helping people remain in good health.

A number of key trends are affecting our market:

1. Population profile
   The growing and ageing population and greater prevalence of long-term conditions continue to be underlying factors putting pressure on the UK's healthcare resources.
2. NHS waiting lists
   NHS waiting lists have grown to record levels, rising to 7.6m pathways in December 2023, up from 7.2m in December 2022, with some people waiting on more than one pathway. The difficulty for patients lies not only the length of the lists, but also the length of time people are waiting for diagnoses and treatments.
3. Private market
   Demand for SP healthcare fell slightly from historic highs in 2023, but demand remains strong, particularly in our core specialities of hip and knee surgery. Since the pandemic, PMI penetration has grown significantly – the most recent LaingBuisson data states that c.7.4m lives are now covered by private medical cover, and 3.5m each by health cash plans and dental benefit plans.
4. Healthcare workforce
   The UK healthcare sector continues to face a severe skills shortage. Attracting and retaining the best people remains a challenge for all healthcare providers, both public and private. Rates for agency staff are also rising, presenting a further challenge.
5. Economic environment
   Following sharp rises in inflation in the UK in 2022, the rate fell late in 2023, but remains much higher than the Bank of England's target of 2%. Cost-of-living pressures are still having a major impact on many people's disposable income, and higher interest rates have become a factor for individuals and businesses everywhere. Our core customer is generally more affluent and more insulated against rising costs, while our older self-funding customers are mostly far less affected by mortgage increases.
6. Role for employers in healthcare
   It is increasingly understood that employers have a role to play in improving the health of their employees, to enhance the health, protection and wellbeing of people at work. As a consequence, employers are increasing the provision of PMI for their employees. Our occupational health (OH) services are seeing continued demand for employee health support, and VHG is seeing increased demand from employers for the mental health and MSK services it provides.

Driving our Purpose and Strategy

In 2022, Spire Healthcare widened its Purpose to 'making a positive difference to people's lives', while broadening our offer of outstanding personalised care to more people in a wider range of settings. We now aim to be involved in people's healthcare across both pre- and post-hospital care, providing support to local communities and responding to increasing demand for the broad range of healthcare services beyond hospital-led treatments.

Our strategy is supported by five key pillars:

- We will **drive hospital performance**, through consistent growth in our existing hospital estate with increasing margins.
- We will **build on quality** and patient safety to make it a competitive advantage in all our activities.
- We will continue to **invest in our workforce** through strong recruitment, retention and development programmes.
- We will **champion sustainability**, as we aim to be recognised as a leader in our sector.
- We will **develop new services** through selective investments that will attract new patients by meeting more of their healthcare needs.

All this will help us focus on delivering a **strong financial performance** with a particular emphasis on cash generation, investment, improving our margin and return on capital, and delivering strong shareholder returns.

Driving hospital performance

The core of Spire Healthcare's business remains the efficient operation of its 39 hospitals. Overall, hospital performance during the year was strong. Ongoing significant demand for safe, high quality treatment underpinned growth in hospital revenue. Overall admissions and revenue were higher than in FY22, with in-patient and day case admissions 5.3% ahead of prior year.

Private admissions grew by 3.6% during the 12-month period compared to prior year, with private revenue ahead by 9.5%.

PMI revenue grew by 14.3% vs FY22 to £615.7m, reflecting an increase in referrals as demand for PMI grew. Volume of PMI patients, including admissions and outpatient procedures, was up 10.1% vs FY22, with admissions up 10.5%.

SP revenue was up YOY by 1.8% to £344.0m with volumes maintained at levels significantly higher than pre-COVID. SP admissions and OP procedures reduced by 6.3% versus FY22. The overall SP market declined. We have maintained the high levels of revenue from 2022, with ARPC increasing 10.1%. This revenue has been delivered with management of mix and price. We have used our digitised pricing engine to generate increased ARPC and revenue, and we have reduced volumes in cosmetics. We continue to invest selectively in high quality ophthalmology services but have remained disciplined on pricing in a competitive market.

Spire Healthcare continued to support the NHS to reduce waiting lists during the period. It contributed to the Government's Elective Recovery Taskforce, which was set up to make better use of the country's healthcare capacity, and welcomed the emphasis on promoting patient choice which was an important part of the Taskforce's recommendations. NHS revenue grew in 2023 by 15.5% to £341.1m compared to last year, while the NHS tariff increased by 4.1%. We had increased referrals through the electronic referral system (eRS). Overall NHS volumes, including admissions and outpatient procedures, were up 6.1% YOY with admissions up 9.4%. Orthopaedic volumes were up 14% YOY and now comprise c.58% of all Spire NHS referrals.

The private proportion of total revenue during FY23 was 70.6% (FY22: 73.1%), 72.3% of hospital revenue (FY22: 73.2%). This aligns with our aim for private revenue to be in the range of 70-80%.

The average revenue per case (ARPC) rose by 6.3% to £3,381. In SP, management has control over pricing and actively manages it using the Group's digitised pricing system. Spire Healthcare's PMI prices are adjusted annually in Q1 / Q2 each year and contain mechanisms linked to inflation, as well as pricing incentives to capture increased patient flow from insurance partners. Compared to FY22, PMI ARPC was up 5.1% to £2,896, SP up 10.1% to £4,356 and NHS up 8.4% to £3,392.

Spire Healthcare launched a new, successful multichannel brand-building campaign in September 2023, focusing on patients' desire to get back to their lives by having their health conditions diagnosed and treated – "the sooner you're better, the better".

Building on quality

Delivery of patient safety and high-quality patient care is central to Spire Healthcare's operations and embedded in our purpose and culture. A significant proportion of the Group's operational and capital expenditure is centred on the delivery of first class healthcare service. 98% of our inspected hospitals and clinics are currently rated 'Good' or 'Outstanding' by the Care Quality Commission (CQC) or the equivalent in Scotland and Wales. Three CQC inspections were performed in 2023: Nottingham – Outstanding (previously Outstanding); Methley Park – Good (previously Good); and the Orth Team Centre – Good (initial inspection). We are awaiting re-inspection of Spire Alexandra, the one remaining site which has a 'Requires Improvement' rating, and which has not been inspected since 2016/17. 93% of Spire Healthcare's patients rate the Group's care as 'Outstanding', up 1ppt vs FY22, while 83% of the Group's consultant partners rate its care as 'Very Good' or 'Excellent', up 5ppts vs FY22.

Management continues to prepare for rollout of the new Patient Safety Incident Response Framework (PSIRF), a new approach to responding to patient safety incidents across the healthcare sector, which will enable us to investigate events, when they do happen, in a more responsive and inclusive way.

Investing in our workforce

With the ongoing shortage of skilled healthcare staff in the UK and international market, Spire Healthcare has continued to invest heavily in its workforce in line with our strategy.

A number of training and development courses were delivered during 2023 as part of a programme to equip current and future leaders of the business. This included a range of apprenticeship programmes for clinical and non-clinical colleagues, and almost 4% of permanent colleagues are in apprenticeship roles.

Spire Healthcare supported eligible colleagues with a 5.5% salary increase from 1 September 2023, with a 3% rise for colleagues eligible for a bonus, on top of a 5% rise in 2022 for most eligible colleagues. At that point, the Group's lowest paid colleagues moved in-line with the Real Living Wage. In our annual survey of colleagues, 81% recorded that they were proud to work for Spire Healthcare, up 1ppt versus FY22.

Spire Healthcare brought recruitment in-house during H1 2023, which is leading to improved filling of vacancies and has already generated over £0.5m of savings. Management is very encouraged that the combined investments in the workforce are leading to a material reduction in colleague leaver rates, to the lower levels we sustained before the pandemic. The Group's 12-month turnover rate was 15.1% in the year to 31 December 2023, down from 18.8% in the year to 31 December 2022.

Championing sustainability

Championing sustainability is core to the Group's strategy and important to our success and future, and we continue to implement the sustainability strategy we launched in 2022. The sustainability strategy covers Spire Healthcare Limited only at this stage; we anticipate working to bring the rest of the group under the same plan.

In 2023, we made further progress towards achieving net zero carbon status by 2030, with investment during the year in the removal of piped nitrous oxide systems, the installation of new solar panels, increasing recycling and generating carbon reduction through the effective management of our waste, and the optimisation of our building management systems. Waste is managed more efficiently with 35% (FY22: 30%) now recycled and we have saved 27,000 litres of water in a trial at two hospitals. The intensity of the Group's carbon emissions reduced by 12% in 2023 compared to prior year (down 13% in 2022). We are planning to install solar panels on all our hospitals, with most of the work completed in 2024, enabling us to make further progress towards net zero.

Expanding our healthcare proposition

While running great hospitals remains central to Spire Healthcare, management is responding to the rapid and fundamental changes taking place in the UK healthcare landscape by making selective investments in new services that are designed to attract new patients and meet more of their healthcare needs. Spire Healthcare wants to take a more proactive role in its patients' care before and after a stay in hospital. More than that, the Company wants to be with people throughout their whole healthcare journey. Further progress towards this ambition of being a more integrated healthcare provider was made during the year.

The acquisition of VHG, with a customer base of 16 NHS integrated care boards and more than 200 corporate clients, enables the Group to expand its capabilities into low-acuity mental health. In addition, it provides synergies with the relationships it has already built with corporate and PMI customers, and occupational health businesses. VHG comes to the Group with outstanding customer feedback, a proven management team, and a strong track record in winning new contracts – several of which will come online in early 2024.

The ongoing integration of DCG, which was acquired in late 2022, progressed well during 2023. Company management has restructured the business into two units, Spire Occupational Health and London Doctors Clinic (LDC).

Spire Occupational Health continues to develop in line with the Group's plan. Management's focus during 2023 has been on integrating the two OH businesses previously within DCG, Soma Health and Maitland Medical, and rebranding them as Spire Occupational Health, and the integration is ongoing in 2024. We also continued to retain and win new clients including the University of Worcester and F1.

During the year, Spire Healthcare focused the LDC business in London and South East England, and closed four LDC clinics in Manchester and Birmingham. The Group has since opened five new clinics in our core target areas of Bank, Chiswick, Fulham, Hampstead and Islington. LDC made a small loss in 2023 due to investment in new clinics. The business is expected to reach profitability in 2024.

Spire Healthcare's GP services have continued to grow in recent years, with patients attracted by a high-quality service offering efficient access to a GP near to where they live, or virtually. Patients also value the longer appointment times that enable a fuller examination and discussion of their medical needs with the GP. Taken together, the Spire GP and LDC businesses now constitute a large, nationwide private GP network with 18 rapid-access LDC clinics in Greater London and Spire GP in most hospitals, together delivering around 8,000 GP appointments each month.

The Group's previously disclosed plans to target 10 new medical clinics to meet the growing healthcare needs in our communities, advanced during 2023. We opened the first of the Company's clinics at Abergele, North Wales earlier this month. Work to open a second clinic at Harrogate is underway. The clinics offer ambulatory care, enabling the Group to build in efficiencies from the start. Some of the clinics will follow an 'outreach' model, opening close to existing hospitals and enabling the Group to move some of its outpatient functions and minor treatments away from its hospitals. Others will be in completely new parts of the country where the Group does not currently have a presence, enabling Spire Healthcare to meet the healthcare needs of more people, and to build relationships with new consultants.

Dividend

The Directors of Spire Healthcare have recommended the payment of a final dividend of 2.1 pence per share for the year ended 31 December 2023. Subject to shareholder approval at the forthcoming Annual General Meeting on 9 May 2024, the dividend will be paid on 21 June 2024 to shareholders of the Company at the close of business on 24 May 2024. This payment is in line with the Group's clear and sustainable dividend policy whereby dividends will typically be set at 25-35% of Profit After Tax, provided bank leverage remains less than 2.5 times.

Board changes

Debbie White and Natalie Ceeney joined the Board as independent non-executive directors on 1 February 2023 and 1 May 2023, respectively. Debbie White took over from Martin Angle as the Board's Senior Independent Director on 12 May 2023. Professor Dame Janet Husband was appointed Vice Chair from 1 March 2023.

Financial review

Selected financial information

(£m)	Year ended 31 December 2023 Total before Adjusting items	Adjusting items (note 9)	Total	Year ended 31 December 2022 Total before Adjusting items	Adjusting items (note 9)	Total
Revenue	**1,359.0**	**-**	**1,359.0**	1,198.5	-	1,198.5
Cost of sales	**(734.8)**	**-**	**(734.8)**	(660.1)	-	(660.1)
Gross profit	**624.2**	**-**	**624.2**	538.4	-	538.4
Other operating costs	**(497.4)**	**(6.7)**	**(504.1)**	(435.8)	(10.2)	(446.0)
Other income	**3.6**	**2.5**	**6.1**	3.0	-	3.0
Operating profit	**130.4**	**(4.2)**	**126.2**	105.6	(10.2)	95.4
Finance income	**1.4**	**-**	**1.4**	-	-	-
Finance costs	**(93.0)**	**-**	**(93.0)**	(91.5)	-	(91.5)
Profit before taxation	**38.8**	**(4.2)**	**34.6**	14.1	(10.2)	3.9
Taxation	**(6.4)**	**(0.3)**	**(6.7)**	2.5	1.8	4.3
Profit for the period	**32.4**	**(4.5)**	**27.9**	16.6	(8.4)	8.2
Profit for the year attributable to owners of the Parent	**31.8**	**(4.5)**	**27.3**	17.0	(8.4)	8.6
Profit for the year attributable to non-controlling interest	**0.6**	**-**	**0.6**	(0.4)	-	(0.4)
Adjusted EBITDA [(1)]			**234.0**			203.5
Basic earnings per share, pence			**6.8**			2.1
Adjusted FCF [(2)]			**48.0**			28.0
Net cash from operating activities			**215.5**			180.1
Net bank debt [(3)]			**315.7**			250.1

1. Adjusted EBITDA is calculated as Operating Profit, adjusted to add back depreciation, and Adjusting items, referred to hereafter as 'Adjusted EBITDA' refer to page 11. For EBITDA for covenant purposes, refer to note 17.
2. Adjusted FCF (Free Cash Flow) is calculated as Adjusted EBITDA, less rent, capital expenditure cash flows and changes in working capital after adjusting for one-off items which are not related to the normal trading activity of the business. Rent cash flows are defined as interest on, and payment of, lease liabilities. Capital expenditure cash flows are defined as the purchase of property, plant and equipment.
3. Net bank debt is defined as bank borrowings less cash and cash equivalents

Revenue

Group revenues increased 13.4% to £1,359.0m (2022: £1,198.5m). The increase is driven by demand for private healthcare which remained strong throughout the year. The group's self-pay business remained robust with revenue up YOY delivered through a strong focus on mix, where it targeted more complex, higher margin treatments in orthopaedics, while scaling back in high volume but low value areas such as ophthalmology and cosmetics.

Included in other revenue is £31.4m related to new Services of which £18.3m of revenue relates to our recent acquisition of VHG and £13.1m (2022: £0.1m) relates to The Doctors Clinic Group acquired in the prior year. Revenue and earnings from new Services were not material in FY23. From FY24, new Services will be presented separately.

Revenue by location and payor

(£m)	2023	2022	Variance % (2023-2022)
Total revenue	**1,359.0**	1,198.5	13.4%
Of which:			
Inpatient	**535.5**	487.5	9.8%
Daycase	**399.9**	348.0	14.9%
Out-patient	**365.4**	333.1	9.7%
Other	**58.2**	29.9	94.5%
Total revenue	**1,359.0**	1,198.5	13.4%

Of which:			
PMI	**615.7**	538.7	14.3%
Self-pay	**344.0**	338.0	1.8%
Total Private	**959.7**	876.7	9.5%
Total NHS	**341.1**	295.4	15.5%
Other[1]	**58.2**	26.4	120.5%
Total revenue	**1,359.0**	1,198.5	13.4%

1. Other revenue includes fees paid to the group by consultants (eg for the use of group facilities and services) and third-party revenue (eg pathology services to third parties) and rehabilitation, counselling and physiotherapy revenue from the recent VHG acquisition.

Cost of sales and gross profit

Gross margin for the year is 45.9% compared to 2022 of 44.9%. Cost of sales increased in the period by £74.7m or 11.3% to £734.8m (2022: £660.1m) on revenues that increased by 13.4% (2022: 8.3%). Increased costs are due to inflationary pressures, increased agency costs and continued wage rate expansion. The margin was higher in 2023 due to increased private volumes, and careful management of pricing, mix and cost savings.

Cost of sales is broken down, and presented as a percentage of revenue, as follows:

	2023		2022	
	Year ended 31 December		Year ended 31 December	
	£m	% of revenue	**£m**	**% of revenue**
Clinical staff	**304.1**	**22.4%**	275.3	23.0%
Direct costs	**312.4**	**23.0%**	280.3	23.4%
Medical fees	**118.3**	**8.7%**	104.5	8.7%
Cost of sales	**734.8**	**54.1%**	660.1	55.1%
Gross profit	**624.2**	**45.9%**	538.4	44.9%

Other operating costs

Other operating costs, excluding adjusting items have increased by £61.6m, or 14.1% to £497.4m (2022: £435.8m). The main driver is increased staff costs due to continued wage rate expansion and other inflationary pressures. Depreciation for the year was £103.6m (2022: £97.9m). The increase is in line with expectations and is largely due to additional leases relating to medical equipment and RPI increases on properties. As disclosed in 2022, the prior year benefits from a reduction in charge of £6.6m (2022: £2.9m) as a consequence of a revision of the useful life and residual value policy in respect of freehold properties so that it more closely aligned with external benchmark information. The useful life was extended from a maximum of 50 years to a maximum of 60 years, and the group has set the residual value equal to 20% of cost (previously nil).

Adjusting items included in operating costs are explained below. Other operating costs including Adjusting items for the year ended 31 December 2023 increased by £58.1m or 13.0% to £504.1m (2022: £446.0m)

Operating margin for the year ended 31 December 2023 is 9.3% (2022: 8.0%). Operating margin, excluding adjusting items is 9.6%, up from 8.8% at 2022.

Adjusted EBITDA

Adjusted EBITDA for the group has increased by 15.0% in the period from £203.5m to £234.0m for 2023. The increase is due to continued growth in private revenue and good cost management.

Share-based payments

During the period, grants were made to executive directors and other employees under the company's Long Term Incentive Plan. For the year ended 31 December 2023, the charge to the income statement is £3.7m (2022: £2.3m), or £4.1m inclusive of National Insurance (2022: £2.6m). Further details are contained in note 27 of the Annual Report and Accounts.

Adjusting items

	Year ended 31 December	
(£m)	**2023**	2022
Business reorganisation and corporate restructuring costs	**2.0**	4.5
Asset acquisitions, disposals, impairment and aborted project costs	**3.1**	4.3
Remediation of regulatory compliance or malpractice costs	**(0.9)**	1.1
Hospitals set up and closure costs	**-**	0.3
Total pre-tax Adjusting items	**4.2**	10.2
Income tax credit charge on Adjusting items	**0.3**	(1.8)
Total post-tax Adjusting items	**4.5**	8.4

Adjusting items comprise those matters where the directors believe the financial effect should be adjusted for, due to their nature, size or incidence, in order to provide a more accurate comparison of the group's underlying performance.

Asset acquisitions, disposals, impairment and aborted project costs of £3.1m mainly relate to asset acquisitions. In October 2023, the group acquired 100% of the share capital in Vita Health Group Limited for a net cash consideration of £73.2m as part of its strategic investment in its broader healthcare offering. The costs of acquisition of £2.5m have been incurred in the period. Costs for integration are expected to continue into FY24. £0.4m of integration related costs have been incurred following the acquisition of Doctors Clinic Group in December 2022.

In the prior year, the costs mainly related to Claremont Hospital and the purchase of the remaining non-controlling interest, and an impairment of £0.5m was recognised on the St Saviours property which was sold in H2 2022.

During H2 21, the group announced a strategic, group wide initiative that impacts the operating model of the group to allow a more efficient governance and reporting structure, as well as a drive on digital functionality. This initiative will be implemented over several phases. In the period, £2.0m (2022: £4.5m) has been incurred. The initial phase of the initiative was completed in 2022, with the majority of the project completed in 2023. It is expected that some costs will be incurred in 2024 as the project enters into the next strategic phase.

The group has recognised a credit of £0.9m during the year in respect of Remediation of Regulatory Compliance or Malpractice Costs relating to Paterson. This comprises £2.5m funds received from its insurer and £0.9m reduction in provision which had been held to resolve the matter. This is offset by an increased separate provision in respect of Paterson by £2.5 million (2022: £0.9 million), which relates to a detailed patient review initiative which commenced in 2021, supporting patients of Paterson. During 2023 the group has re-evaluated the expected cost of completing this complex project, and its associated settlement of patient claims.

Hospital set-up and closure costs in the prior year mainly relate to the maintenance costs of non-operational sites.

Net finance costs

Net finance costs remain flat at £91.6m (2022: £91.5m). This is due to the effectiveness of the interest rate swaps, interest income on bank deposits offset by increased interest on the draw down of the revolving credit facility and a one-off charge of £3.1m in the prior year in respect of unamortised fees which were recognised in full following the refinancing of the senior loan facility.

Taxation

The effective tax rate assessed for the year, all of which arises in the UK, differs from the standard weighted rate of corporation tax in the UK. The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

	Year ended 31 December	
(£m)	**2023**	2022
Profit before taxation	**34.6**	3.9
Tax at the standard rate	**8.1**	0.7
Effects of:		
Expenses and income not deductible or taxable	**3.2**	8.2
Tax adjustment for the Super-deduction allowance	**(0.8)**	(2.6)
Impairment charge in respect of held for sale assets (not tax deductible)	**-**	0.1
One-off impact of revision to useful economic life and residual value of freehold property portfolio	**-**	(9.0)
Adjustments to prior year	**(4.2)**	(1.8)
Difference in tax rates	**0.2**	0.1
Deferred tax not previously recognised	**0.2**	-
Total tax charge/(credit)	**6.7**	(4.3)

Corporation tax is calculated at 23.5% (2022: 19.0%) of the estimated taxable profit or loss for the year. The effective tax rate on profit before taxation for the year is 19.4%, although not truly reflective of the current year position as a result of adjustments to the prior years (2022: not meaningful as a result of adjustments in respect of prior years and movements on deferred tax which are not directly linked to profit). Excluding the adjustments to prior years in 2023, the effective tax rate is 31.5%. The adjustments to prior years includes the recognition of a deferred tax asset in respect of Corporate Interest restrictions which has recognised a credit of £3.3 million through adjustments to prior years for deferred tax purposes, as well as the recognition of deferred tax on acquired losses of £1.9 million in respect of an acquisition. In the prior year, the group reassessed the useful life and residual value of its freehold property portfolio. This resulted in a one-off deferred tax credit of £9.0 million.

Deferred tax is detailed in note 23 of the annual report.

Profit after taxation

The profit after taxation for the year ended 31 December 2023 was £27.9m (2022: £8.2m).

Alternative performance (non-GAAP) financial measures

We have provided alternative financial information that has not been prepared in accordance with IFRS. We use these alternative financial measures internally in analysing our financial results and believe they are useful to investors, as a supplement to IFRS measures, in evaluating our ongoing operational performance. We believe that the use of these alternative financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends in comparing our financial results with other companies in the industry, many of which present similar alternative financial measures to investors.

Alternative financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with IFRS. Investors are encouraged to review the reconciliation of these alternative financial measures to their most directly comparable IFRS financial measures provided in the financial statements table.

Adjusted EBITDA, Adjusted EBIT and Hospital Business Adjusted EBITDA margin

(£m)	Year ended 31 December 2023	2022
Operating profit	**126.2**	95.4
Remove effects of:		
Adjusting items before interest and tax	**4.2**	10.2
Adjusted EBIT	**130.4**	105.6
Depreciation	**103.0**	97.9
Amortisation	**0.6**	-
Adjusted EBITDA	**234.0**	203.5
For the Hospital Business		
Revenue	**1,327.6**	1,198.5
Adjusted EBITDA	**233.8**	203.5
Adjusted EBITDA margin	**17.6%**	17.0%

Adjusted profit after tax and adjusted earnings per share

Adjustments have been made to remove the impact of non-recurring items.

(£m)	Year ended 31 December 2023	2022
Profit before tax	**34.6**	3.9
Adjustments for:		
Adjusting Items – operating costs	**4.2**	10.2
Adjusted profit before tax	**38.8**	14.1
Taxation[1]	**(6.4)**	2.5
Adjusted profit after tax	**32.4**	16.6
Profit for the year attributable to owners of the parent	**31.8**	17.0
Profit / (loss) for the year attributable to non-controlling interests	**0.6**	(0.4)
Weighted average number of ordinary shares in issue (No.)	**403,648,886**	402,679,296
Adjusted earnings per share (pence) attributable to the parent	**7.9**	4.2

1. Reported tax charge for the period adjusted for the tax effect of Adjusting Items

Return on capital employed

Return on capital employed ('ROCE') is the ratio of the group's Adjusted EBIT to total assets less cash, capital investments made in the last 12 months and current liabilities. In the current year the calculation annualises the EBIT of the VHG acquisition as it was not part of the group for the full year. The calculation of return on capital employed is shown below:

(£m)	Year ended 31 December 2023	2022
Adjusted EBIT	**130.4**	105.6
Adjusted: for full year pro-forma effect of VHG acquisition	**6.8**	-
Adjusted EBIT pre VHG	**137.2**	105.6
Total Assets	**2,288.1**	2,159.8
Less: Cash and cash equivalents	**(49.6)**	(74.2)
Less: Capital investments	**(84.4)**	(90.1)
Less: Current Liabilities	**(317.6)**	(283.4)
Capital Employed	**1,836.5**	1,712.1
Return on capital employed %	**7.5%**	6.2%

Adjusted Free Cash flow

(£m)	Year ended 31 December 2023	2022
Adjusted EBITDA	**234.0**	203.5
Less: Lease payments	**(100.2)**	(93.7)
Less: Cash flow for the purchase of property, plant and equipment	**(84.4)**	(87.7)
Less: Working capital movement	**(15.5)**	(15.0)
Less: Adjustments for non-recurring items	**14.1**	20.9
Adjusted FCF	**48.0**	28.0

Cash flow analysis for the period

(£m)	Year ended 31 December 2023	2022
Opening Cash balance	**74.2**	202.6
Operating cash flows before recurring items and VHG	**228.2**	186.5
Less: Adjustments for non-recurring items and VHG	**9.9**	-
Operating cash flows before Adjusting Items and income tax paid	**218.3**	186.5
Net cash flow from Adjusting Items (included in operating cash flows)	**(2.7)**	(6.4)
Income tax paid	**(0.1)**	(0.1)
Operating cash flows after operating Adjusting Items and income tax	**215.5**	180.0
Net cash flow from Adjusting Items (included in investing cash flows)	**-**	3.2
Net cash in investing activities	**(84.0)**	(87.2)
Cash outflow for acquisition of subsidiary	**(73.2)**	(11.4)
Investing cash flows after investing Adjusting Items	**(157.2)**	(95.4)
Net cash in financing activities	**(82.9)**	(210.3)
Financing cash flows after financing Adjusting Items	**(82.9)**	(213.0)
Closing cash balance	**49.6**	74.2

Closing cash balance

The group's year end cash balance stood at £49.6m, which reflects a reduction of £24.6m against the prior year balance of £74.2m. This movement contains two significant one-off items being the acquisition of VHG for a net cash consideration of £73.2m and a cash inflow of £40m from the draw down of the revolving credit facility. Further detailed information on the cash flow during the period is set out in the following sections.

Operating cash flows before Adjusting items

The cash inflow from operating activities before tax, Adjusting items and VHG was £228.2m (2022: £186.5m), which constitutes a cash conversion rate from £232.2m Adjusted EBITDA pre VHG of 98% (2022: 92% conversion of £203.5 Adjusted EBITDA). The net cash outflow from movements in working capital in the period was £15.5m (2022: £15.0m outflow).

Investing and financing cash flows

Net cash outflow in investing activities for the period was £157.2m (2022: £95.4m). The cash outflow relates to the net cash consideration paid for the acquisition of VHG of £73.2m and the purchase of plant, property and equipment in the period totalled £84.4m (2022: £87.7m). Capital investment in the year includes the new outpatients and diagnostic centre at Yale, investment into cardiac theatres at Manchester and Nottingham, ophthalmic services at Cambridge and continued major hospital refurbishment programmes.

Net cash used in financing activities for the period was £82.9m (2022: £213.0m) Cash outflows include interest paid and other financing costs of £90.0m (2022: £94.6m), and £27.2m (2022: £18.5m) of lease liability payments and £3.1m for the buyback of shares to settle share awards. This is offset by an inflow of £40m from the draw down of the revolving credit facility.

Borrowings

At 31 December 2023, the group has bank borrowings (inclusive of IFRS 9 adjustments) of £365.3m (2022: £324.3m), drawn under facilities which mature in February 2027.

(£m)	Year ended 31 December 2023	2022
Cash	**49.6**	74.2
Bank borrowings	**365.3**	324.3
Bank borrowings less cash and cash equivalents	**315.7**	250.1

During the year, the group exercised its option to extend the senior loan facility by a further year. The financial covenants and agreement terms relating to this agreement are unchanged, with leverage to be below 4.0x and interest cover to be in excess of 4.0x. As at 31 December 2023 the leverage measure stood at 2.2x (2022:2.2x) and interest cover of 8.5x (2022: 8.5x).

As at 31 December 2023 lease liabilities were £891.7m (2022: £866.5m).

Dividend

The directors of Spire Healthcare have recommended the payment of a final dividend of 2.1 pence per share for the year ending 31 December 2023. Subject to shareholder approval at the forthcoming Annual General Meeting on 9 May 2024.

Related party transactions

There were no significant related party transactions during the period under review.

Principal Risks

We set out our principal risks with their material mitigations below. Further detail on our principal risks will be found in the 2023 Annual Report and Accounts on pages 64 to 74.

1. Workforce	We seek to retain colleagues through: • A common purpose and a positive workplace culture • Competitive pay and reward benefits. In 2023, we announced a competitive pay award that provided a 5.5% increase for most eligible colleagues. We will continue to review pay competitiveness in all the sectors in which we operate • Offering greater flexibility in employee's roles • Employee development programmes, eg a nurse training programme and other apprentice schemes • Continuous investment in our equipment, facilities and services to retain high-quality clinicians In 2023, our risk mitigations have helped to produce a downward trend in colleague churn rates. We seek to recruit colleagues through: • A centralised recruitment process which we brought in-house 2023 • Offering apprenticeship programmes to support the development of clinical and non-clinical teams across the business • Building of local bank colleague pools and using digital solutions to improve access to available shifts • An overseas recruitment capability to secure skilled healthcare workers from outside the EU (in line with World Health Organization protocols to recruit from only 'green' countries). The group manages immediate colleague shortages using agency and bank workers.
2. Inflation and wage inflation	In response to macro inflationary pressure, we will continue to benefit from a range of inflation mechanisms built into the PMI contracts and will benefit from our ability to change self-pay pricing quickly via our pricing engine subject to prevailing market conditions. Our conversion rate from Out-patient appointment to In-patient procedure remains stable. Our procurement team maintains a constant review of pricing and seeks opportunities to mitigate inflationary increases. We continue to respond to changing economic circumstances by optimising our private and NHS-funded work, ensuring we are not over-reliant on one income source, and supported by an efficient cost base. We responded to wage inflation by announcing to our staff early in 2023 that the 2023 general pay increase will be 5.5% for most eligible colleagues, and more for those near minimum wage.
3. Climate change	Flood risk mitigation includes a continued periodic review of our estate in relation to existing and predicted flood risk zones and investment in improved roofing and drainage where vulnerabilities have been identified. None of our current sites are situated in predicted high risk flood zones or in coastal areas predicted to be at risk from rising sea levels. Extreme ambient temperature risk mitigation includes an informed investment plan for upgrade of failing and vulnerable plant. Design of the replacement and upgrade would account for the predicted increase in ambient temperature profiles expected within the lifespan of the plant eg, 15 years. Further mitigation measures include extreme weather warning protocol and Business Continuity Plans to provide emergency loan HVAC plant. Energy price risk mitigation includes energy efficiency measures to reduce consumption and our energy hedging strategy which has seen all our current energy requirements secured until December 2024.
4. Information governance & security	The data strategy, governance and security committee monitors the risk and mitigations for data governance and cyber security. The committee reports into the executive committee with a separate reporting line to the audit and risk committee . To support this governance structure, we have a range of policies and practices, and mandatory staff training covering data governance and cyber security (eg, central monitoring of compliance with data subject access requests, data processing impact assessments and notifications to or from the Information Commissioners Office) and cyber security. Our IT team have a cyber-security strategy for continuous improvement based on industry standards. It covers the processes from identifying specific risks, to protecting physical and digital data assets through to recovery in the event of a successful cyber-attack.

	We work with several industry-leading technical partners to provide: • Multiple layers of business protection using advanced detection and protection systems • Regular third-party penetration testing on new and existing IT systems • Red-Teaming Exercises to attempt to access our systems using a variety of real-world techniques • Managed Security Operations Centre (SOC) to monitor, analyse and respond to security threats 24x7
5. Digitalisation, automation & efficiency	The digital strategy focuses on an 18-24 month planning horizon to improve the predictability of investment and outcomes. This will enable Spire to adjust the priorities and speed of implementation in response to changes in the macro climate and competitive landscape. We will utilise best practice programme governance, supported by third party experts, to deliver change programmes into the business. We will use technology to enable early benefits realisation, for example utilising process automation to release immediate efficiencies and improvements to boost productivity and further fund future investments for digitalisation. The digital strategy has built-in focus on innovation and external horizon scanning to ensure we are not behind the curve compared to competitors (current or future).
6. Brand reputation	Our primary mitigations against damage to our brand reputation is through the good management of our principal risks, in particular: • Patient safety and clinical quality • Cyber security and data protection • Workforce In addition, we continue to invest in the awareness and health of the brand through national advertising, public relations and centrally coordinated social media. We also continue to build our reputation amongst analysts and public commentators.
7. Government and NHS policy	Historically, we derived 70% of our revenues from PMI and self-pay patients that provided a natural 'hedge' against exposure to government and NHS policy. Post-pandemic, we are seeing strong private revenues that are expected to continue medium term. During the COVID-19 pandemic, we strengthened our relationships with the Department of Health and Social Care and NHS England. Meanwhile hospitals have also strengthened their relationships with the local NHS commissioners. The Integrated Care Systems (ICSs) are all established and starting to commission referrals effectively. The impact on NHS referrals has been minimal. From a contract perspective we have now signed effective contracts with all ICSs. Vita Health Group's acquisition gives us a new opportunity to participate in the NHS tender market. We also inputted into the government's Elective Recovery Taskforce, whose work concluded in summer 2023.
8. Self-pay market dynamics	We invest in high-quality patient care as this provides an attractive service to self-pay patients and promotes our brand through word-of-mouth recommendations. Since 2022, we have deployed national multi-channel marketing campaigns highlighting the key benefits of private healthcare to increase our brand awareness. We are expanding the range of services we offer to capture a greater share of services that have healthy demand growth (as illustrated by our acquisition of Vita Health Group). We are strengthening our operational capability with further enhancements to the website (content and functionality) and call centre resilience and training. We have adopted sophisticated pricing capability. We are promoting patient financing as a payment option.

9. Major infrastructure failure	All our hospitals have a backup power source provided from diesel powered generators that operates major circuits of a hospital, but some key equipment is not covered, eg, MRI scanners. Battery powered uninterrupted power is provided into specific equipment in theatres to ensure patients remain safe in the event of a generator failure. These backup power sources are designed to keep patients in the hospital safe but are not a complete substitute for mains power. Our national distribution fleet refuel daily at the end of their shifts to ensure resilient operational capability. NHS hospitals are obliged to provide emergency care to everyone but their pressures on ambulance services can and do lead to delays to emergency transfers on rare occasions. Mitigation plans are in place and rehearsed at hospitals. The chief executive officer chairs a regular multi-disciplinary winter planning meeting to co-ordinate response activities to any infrastructure failures.
10. Patient safety and clinical quality	We maintain the following controls to mitigate against a failure of patient safety and clinical quality: • A reporting culture of openness and shared learning from ward to board, with a FTSUG at each site • Timely incident reporting via a database with central oversight and development of actions to ensure learning. We are migrating to the new Patient Safety Incidence Response Framework (PSIRF) in 2024 in line with the NHS • Continually monitoring clinical standards, reporting progress via the board's clinical governance and safety committee (CGSC) • Quality and safety reporting based on a Quality Assurance Framework with a standard set of KPIs • A schedule of robust and regular hospital audits including the Patient Safety and Quality Reviews, with an action plan for improvement that is monitored • Standard Operating Procedure for patient notification exercises that includes learning and continuous improvement methodologies • Colleague induction, clinical competencies requirements and mandated training • Consistent reporting of clinical outcome and effectiveness measures within the hospital and central meeting governance structures (including medical advisory committee meetings) to ensure that insights and learning are actioned and shared • Continuous monitoring of patient experience via regular surveys and policies and procedures in place to ensure learning from patient experience feedback (including detractors and complaints)
11. Expanding our proposition	We have: • An innovation board bringing together the CEO and executive committee members of the medical, clinical, commercial and finance functions to identify healthcare trends and opportunities to develop new services. • A dedicated director of innovation and proposition development sourcing specific opportunities to support the group strategy, leading on development, supported with dedicated IT and project resource • A dedicated director sourcing suitable target acquisitions supported by an expert external financial and tax adviser • A property lead to handle the assessment and acquisition of new physical assets with the support of retained property advisers • Acquisition due diligence processes using appropriate third-party expertise • Board review and approval of acquisitions • Post-acquisition project management and integration processes incorporating learnings from previous acquisitions The acquisition of Vita Health Group has opened new commercial opportunities for us, but importantly also improved our mitigation of this risk.
12. PMI market dynamics	We work hard to maintain good relationships and a joint product/patient health offering with the PMI companies, which, in the opinion of the directors, assists the healthcare sector in delivering high-quality patient care. We invest in high quality patient care as this provides a high-quality service to the insured patients of our PMI partners. We ensure we have long-term contracts in place with our PMI partners that avoids co-termination of contractual arrangements. We believe that continuing to invest in our well-placed portfolio of hospitals provides a natural fit to the local requirements of all the PMI providers long term. We continue to invest in efficiency programmes to ensure that we can offer the best combination of high-quality patient care at competitive prices.

13. Supply chain disruption	We run a centralised supply chain with a national distribution centre (NDC) and its own vehicle and driver fleet. Medical consumables are held at the NDC with an average of six weeks' supply, medicines and prostheses are being held at hospital sites. We must respond to product shortages and global recalls consistently, and we have seen some minor shortfalls in order fulfilment. In all cases, our centralised procurement function has been able, with the support of a permanent presence from the Clinical team, to find alternative supplies to maintain hospitals' activities. Fresh food is supplied through a national food distributor who has its own delivery fleet and directly employs its HGV drivers. Order fulfilment has remained in the high ninety percentile. We have contingency menu plans in case of fresh food shortages. Any national shortages in critical medicines and medical gases are managed by NHS Supply Chain. We receive allocations based on our activity. We will continue to monitor supply chain risks considering the continuing geopolitical volatility.
14. Antimicrobial resistance	Our mitigations are: • Executive level awareness of the government's five-year AMR strategy • Participation in, and collaboration with, government's monitoring of AMR outbreaks • Requirement on clinicians to follow guidance in line with government guidelines on the prescribing of antibiotics • Access to up-to-date antimicrobial prescribing via online systems and access to microbiologists at all sites • Appropriate investigations of post-surgery infections including review of antibiotics

Directors' responsibilities statement

Viability

Assessment of prospects

In accordance with the 2018 UK Corporate Governance Code, the directors assessed the viability of the group and have maintained a period of three years for their assessment. Although longer periods are used when making significant strategic decisions, three years has been used as it is considered the longest period of time over which suitable certainty for key assumptions in the current climate can be made. The assessment conducted considered the group's current financial position and forecasted revenue, EBITDA, cash flows, risk management controls and loan covenants over the three-year period (which is consistent with the approach for prior years).

Assessment of viability

Further detail on Macroeconomic related risk is provided in the Risk management and internal control section in the Strategic Report.

Other specific scenarios covered by our testing were as follows:

- the group is subject to temporary suspension of trade, with a temporary adverse impact on revenue, for example, as a result of a successful cyber-attack on key business systems;
- the downside modelling of a number of risks which result in a decline in earnings, including the loss of a contractual relationship with a key insurer;
- significant change in government policy resulting in consultants going on payroll; and
- short term disruption to trade at a sub-set of hospitals owing to an extreme weather event.

This review included the following key assumptions:

- no change in capital structure given the group refinanced its existing senior finance facility and revolving credit facility in February 2022; and
- the government will not make significant change to its existing policy towards utilising private provision of healthcare services to supplement the NHS.

Based on the results of this review, the directors confirm that they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Going Concern

The group assessed going concern risk through to 30 June 2025. As at 31 December 2023 the group had cash of £49.6m, a Senior Loan Facility of £325m and an undrawn Revolving Credit Facility of £60m. A RCF drawing of £50m was used for the October 2023 acquisition of Vita Health Group with £10m of this being repaid by the end of the year. On 3 March 2023, the group successfully extended the senior loan facility by a further year. The financial covenants relating to this new agreement are materially unchanged.

The group has undertaken extensive activity to identify plausible risks which may arise and mitigating actions, which in the first instance would include management of working capital and constrained levels of capital investment. Based on the current assessment of the likelihood of these risks arising by 30 June 2025, together with their assessment of the planned mitigating actions being successful, the directors have concluded it is appropriate to prepare the accounts on a going concern basis. In arriving at their conclusion, the directors have also noted that, were these risks to arise in combination, it could result in a liquidity constraint or breach of covenant, however, the risk of this is considered remote.

The group has also assessed, as part of its reverse stress testing, what degree of downturn in trading it could sustain before it breaches its financial covenant. This stress testing was based on flexing revenue downwards with a consistent percentage decline in variable costs, whilst maintaining the forecast of fixed costs. The testing did not allow for the benefit of any action that could be taken by management to preserve cash. This testing suggested that there would have to be at least a 21% fall in forecast annual revenue before the group breaches its financial covenant, we believe that the risk of an event giving rise to this size of reduction in revenue is remote.

It should be noted that we are in a period of material geo-political and macro-economic uncertainty. Whilst the directors continue to closely monitor these risks and their plausible impact, their severity is hard to predict and is dependent upon many external factors. Accordingly, the actual financial impact of these risks may materially vary against the current view of their plausible impact.

By order of the board

Justin Ash
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

28 February 2024

Consolidated income statement

For the year ended 31 December 2023

(£m)	Note	2023 Total before Adjusting items	2023 Adjusting items (note 9)	2023 Total	2022 Total before Adjusting items	2022 Adjusting items (note 9)	2022 Total
Revenue	5	**1,359.0**	**–**	**1,359.0**	1,198.5	–	1,198.5
Cost of sales		**(734.8)**	**–**	**(734.8)**	(660.1)	–	(660.1)
Gross profit		**624.2**	**–**	**624.2**	538.4	–	538.4
Other operating costs		**(497.4)**	**(6.7)**	**(504.1)**	(435.8)	(10.2)	(446.0)
Other income	6	**3.6**	**2.5**	**6.1**	3.0	–	3.0
Operating profit (EBIT)	7	**130.4**	**(4.2)**	**126.2**	105.6	(10.2)	95.4
Finance income	8	**1.4**	**–**	**1.4**	-	–	-
Finance cost	8	**(93.0)**	**–**	**(93.0)**	(91.5)	–	(91.5)
Profit before taxation		**38.8**	**(4.2)**	**34.6**	14.1	(10.2)	3.9
Taxation	10	**(6.4)**	**(0.3)**	**(6.7)**	2.5	1.8	4.3
Profit for the year		**32.4**	**(4.5)**	**27.9**	16.6	(8.4)	8.2
Profit for the year attributable to owners of the parent		**31.8**	**(4.5)**	**27.3**	17.0	(8.4)	8.6
Profit / (loss) for the year attributable to non-controlling interest		**0.6**	**–**	**0.6**	(0.4)	–	(0.4)
Earnings per share (in pence per share)							
– **basic**	11	**7.9**	**(1.1)**	**6.8**	4.2	(2.1)	2.1
– **diluted**	11	**7.7**	**(1.1)**	**6.6**	4.1	(2.0)	2.1

Consolidated statement of comprehensive income

For the year ended 31 December 2023

(£m)	2023	2022
Profit for the year	27.9	8.2
Items that may be reclassified to profit or loss in subsequent periods		
(Loss) / Gain on cash flow hedges	(4.2)	9.3
Taxation on cash flow hedges	0.9	(2.2)
Other comprehensive (loss) / profit for the year	(3.3)	7.1
Total comprehensive profit for the year, net of tax	24.6	15.3
Attributable to:		
Equity holders of the parent	24.0	15.7
Non-controlling interests	0.6	(0.4)
	24.6	15.3

Consolidated statement of changes in equity

For the year ended 31 December 2023

(£m)	Note	Share Capital (note 16)	Share premium	Capital reserves (note 16)	EBT share reserves (note 16)	Hedging Reserve (note 16)	Retained earnings	Total Equity	Non-Controlling Interest	Total
As at 1 January 2022		4.0	826.9	376.1	(0.8)	(0.5)	(496.1)	709.6	(4.8)	704.8
Profit / (loss) for the year		–	–	–	–	–	8.6	8.6	(0.4)	8.2
Other comprehensive profit for the year		–	–	–	–	7.1	–	7.1	–	7.1
Total comprehensive profit		–	–	–	–	7.1	8.6	15.7	(0.4)	15.3
Dividends to non-controlling interests		–	–	–	–	–	–	–	(0.2)	(0.2)
Dividends paid in respect of vested share awards		–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Share-based payments	20	–	–	–	–	–	2.3	2.3	–	2.3
Deferred tax adjustment on share-based payments reserve		–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Issue of new shares		–	3.1	–	–	–	–	3.1	–	3.1
Utilisation of EBT shares for share awards		–	–	–	0.8	–	(0.8)	–	–	–
Purchase of non-controlling interest		–	–	–	–	–	0.5	0.5	(0.5)	–
As at 1 January 2023		**4.0**	**830.0**	**376.1**	**–**	**6.6**	**(485.7)**	**731.0**	**(5.9)**	**725.1**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**27.3**	**27.3**	**0.6**	**27.9**
Other comprehensive loss for the year		**–**	**–**	**–**	**–**	**(3.3)**	**–**	**(3.3)**	**–**	**(3.3)**
Total comprehensive profit		**–**	**–**	**–**	**–**	**(3.3)**	**27.3**	**24.0**	**0.6**	**24.6**
Dividends paid		**–**	**–**	**–**	**–**	**–**	**(2.0)**	**(2.0)**	**–**	**(2.0)**
Share-based payments	20	**–**	**–**	**–**	**–**	**–**	**3.7**	**3.7**	**–**	**3.7**
Deferred tax adjustment on share-based payments reserve		**–**	**–**	**–**	**–**	**–**	**(0.3)**	**(0.3)**	**–**	**(0.3)**
Settlement on vested share awards		**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**	**–**	**(0.6)**
Purchase of own shares by EBT		**–**	**–**	**–**	**(3.1)**	**–**	**–**	**(3.1)**	**–**	**(3.1)**
Issue of own shares by EBT in respect of share awards		**–**	**–**	**–**	**2.4**	**–**	**2.4**	**–**	**–**	**–**
Additional interest acquired of non-controlling interest		**–**	**–**	**–**	**–**	**–**	**(3.2)**	**(3.2)**	**3.2**	**–**
Financial liability to acquire non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(9.6)**	**(9.6)**	**–**	**(9.6)**
Balance at 31 December 2023		**4.0**	**830.0**	**376.1**	**(0.7)**	**3.3**	**(472.8)**	**739.9**	**(2.1)**	**737.8**

Consolidated balance sheet

For the year ended 31 December 2023

(£m)	Note	2023	2022
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,618.8	1,584.4
Intangible assets	13	438.3	345.8
Derivatives		0.4	5.0
Financial assets		10.0	4.6
		2,067.5	1,939.8
Current assets			
Inventories		44.3	40.6
Trade and other receivables	14	121.6	100.5
Derivatives		4.0	3.6
Cash and cash equivalents		49.6	74.2
		219.5	218.9
Non-current assets held for sale	15	1.1	1.1
		220.6	220.0
Total assets		2,288.1	2,159.8
EQUITY AND LIABILITIES			
Equity			
Share capital	16	4.0	4.0
Share premium		830.0	830.0
Capital reserves	16	376.1	376.1
EBT share reserves		(0.7)	–
Hedging reserve	16	3.3	6.6
Retained loss		(472.8)	(485.7)
Equity attributable to owners of the Parent		739.9	731.0
Non-controlling interests		(2.1)	(5.9)
Total equity		737.8	725.1
Non-current liabilities			
Bank Borrowings	17	361.9	321.4
Lease liabilities	17	793.3	773.7
Financial liabilities	23	9.6	–
Deferred tax liabilities		67.9	56.2
		1,232.7	1,151.3
Current liabilities			
Bank Borrowings	17	3.4	2.9
Lease liabilities	17	98.4	92.8
Provisions	18	16.4	21.7
Trade and other payables	19	197.1	164.5
Income tax payable		2.3	1.5
		317.6	283.4
Total liabilities		1,550.3	1,434.7
Total equity and liabilities		2,288.1	2,159.8

These Consolidated financial statements and the accompanying notes were approved for issue by the Board on 28 February 2024 and signed on its behalf by:

Justin Ash
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

Consolidated statement of cash flows

For the year ended 31 December 2023

(£m)	Note	2023	2022
Cash flows from operating activities			
Profit before taxation		34.6	3.9
Adjustments to reconcile profit before tax to net cash flows:			
Impairment of assets held for sale (Adjusting items) (see note 9)		–	0.5
Fair value adjustment on financial liability (Adjusting items) (see note 9)		–	0.8
(Profit) / loss on disposal of property, plant and equipment		(0.3)	0.3
Adjusting items – other		1.5	2.5
Depreciation of property, plant and equipment and right-of-use assets		103.0	97.9
Amortisation of intangible assets		0.6	–
Finance income		(1.4)	–
Finance costs		93.0	91.5
Other income		(3.6)	(3.0)
Share-based payments expense		3.7	2.3
Movements in working capital:			
Increase in trade receivables and prepayments		(12.7)	(6.9)
Increase in inventories		(3.7)	(0.4)
Increase in trade and other payables		2.2	8.2
Decrease in provisions		(1.3)	(15.9)
Cash generated from operations		215.6	181.7
Tax paid		(0.1)	(0.1)
Net cash flows from operating activities		215.5	181.6
Cash flows from investing activities			
Receipt from financial asset		0.7	0.5
Acquisition of a subsidiary, net of cash acquired		(73.2)	(11.3)
Purchase of property, plant & equipment		(84.4)	(87.7)
Proceeds of disposal of property, plant and equipment		0.8	–
Proceeds of disposal of assets held for sale (Adjusting items)[1]		–	3.2
Interest received on bank deposits		1.4	–
Movement in restricted cash		(2.5)	–
Net cash used in investing activities		(157.2)	(95.3)
Cash flows from financing activities			
Interest paid and other financing costs		(17.0)	(21.1)
Interest on lease liabilities		(73.0)	(73.5)
Payment of lease liabilities		(27.2)	(20.2)
Proceeds from senior loan facility		–	325.0
Repayment of senior loan facility		–	(425.0)
Draw down on revolving credit facility		60.0	–
Repayment on revolving credit facility		(20.0)	–
Proceeds from the issue of new shares		–	3.1
Purchase of own shares		(3.1)	–
Purchase of non-controlling interests (Adjusting item)[1]		–	(2.7)
Settlement on vested share awards		(0.6)	–
Dividend paid to non-controlling interests		–	(0.3)
Dividends paid to equity holders of the parent		(2.0)	–
Net cash used in financing activities		(82.9)	(214.7)
Net decrease in cash and cash equivalents		(24.6)	(128.4)
Cash and cash equivalents at 1 January		74.2	202.6
Cash and cash equivalents at 31 December		49.6	74.2

Total pre-tax adjusting items is £4.2m (2022: £10.2m) of which £2.7m (2022: £6.4m) is included in cash generated from operations.

Notes to the preliminary announcement

1. General information

Spire Healthcare group plc (the 'company') and its subsidiaries (collectively, the 'group') owns and operates private hospitals and clinics in the UK and provides a range of private healthcare services.

The financial statements for the year ended 31 December 2023 were authorised for issue by the board of directors of the company on 28 February 2024.

The company is a public limited company, which is listed on the London Stock Exchange, incorporated, registered and domiciled in England and Wales (registered number: 09084066). The address of its registered office is 3 Dorset Rise, London, EC4Y 8EN.

2. Basis of preparation

The preliminary financial information for the year ended 31 December 2023 included in this report was approved by the board on 28 February 2024. The financial information set out here does not constitute the company's statutory accounts for the year ended 31 December 2023 but is derived from those accounts. Statutory accounts for 2023 will be delivered following the company's annual general meeting. The auditor has reported on those accounts; their report was unqualified and did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

Going concern

The group assessed going concern risk for the period through to 30 June 2025. As at 31 December 2023 the group had cash of £49.6m, a Senior Loan Facility of £325m and an undrawn Revolving Credit Facility of £60m. An RCF drawing of £50m was used for the October 2023 acquisition of Vita Health Group with £10m of this being repaid by the end of the year. On 3 March 2023, the group exercised the option to extend the senior loan facility by a further year. The financial covenants relating to this new agreement are materially unchanged and there have been no modifications to the agreement terms.

The group has undertaken extensive activity to identify plausible risks which may arise and mitigating actions, which in the first instance would include management of working capital and constrained levels of capital investment. Based on the current assessment of the likelihood of these risks arising by 30 June 2025, together with their assessment of the planned mitigating actions being successful, the directors have concluded it is appropriate to prepare the accounts on a going concern basis. In arriving at their conclusion, the directors have also noted that, were these risks to arise in combination, it could result in a liquidity constraint or breach of covenant, however, the risk of this is considered remote.

The group has also assessed, as part of its reverse stress testing, what degree of downturn in trading it could sustain before it breaches its financial covenant. This stress testing was based on flexing revenue downwards with a consistent percentage decline in variable costs, whilst maintaining the forecast of fixed costs. The testing did not allow for the benefit of any action that could be taken by management to preserve cash. This testing suggested that there would have to be at least a 21% fall in annual forecast revenue before the group breaches its financial covenant, we believe that the risk of an event giving rise to this size of reduction in revenue is remote.

It should be noted that we are in a period of material geopolitical and macroeconomic uncertainty. Whilst the directors continue to closely monitor these risks and their plausible impact, their severity is hard to predict and is dependent upon many external factors. Accordingly, the actual financial impact of these risks may materially vary against the current view of their plausible impact.

3. Accounting policies

In preparing this preliminary announcement, the same accounting policies, methods of computation and presentation have been applied as set out in the group's Annual Report and Accounts for the year ended 31 December 2023, a copy of this report will shortly be available on the company's website at www.spirehealthcare.com.

Changes in accounting policy - New standards, interpretations and amendments applied

The following amendments to existing standards were effective for the group from 1 January 2023. Other than some additional disclosures, these amendments have not had a material impact on the consolidated financial statements of the group.

	Effective date*
Amendments to IAS 8 – Definition of accounting estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to IAS 12 – International Tax Reform — Pillar Two Model Rules	1 January 2023
IFRS 17 – Insurance contracts	1 January 2023

* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations that are consistent with the endorsement process for use in the UK.

Notes to the preliminary announcement continued

3. Accounting policies continued

Changes in accounting policy - new standards, interpretations and amendments in issue, but not yet effective

As at date of approval of the group financial statements, the following new and amended standards, interpretations and amendments in issue are applicable to the group but not yet effective and thus, have not been applied by the group:

	Effective date*
Amendments to IAS 1 – Classification of liabilities as current or non-current	1 January 2024
Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements	1 January 2024
Amendments to IFRS 16 – Lease Liability in a sale and leaseback	1 January 2024
Amendments to IAS 21 – Lack of exchangeability	1 January 2025

* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the group prepares its financial statements in accordance with IFRS as issued by the IASB as endorsed by the UK, the application of new standards and interpretations will result in an effective date subject to that agreed by the UK Endorsement process.

4. Critical accounting judgements and estimates

In the application of the group's accounting policies, the directors are required to make judgements and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing this preliminary announcement, the significant judgements and estimates made by management in applying the group's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2023.

5. Segmental reporting

In determining the group's operating segment, management has primarily considered the financial information in internal reports that are reviewed and used by the executive management team and board of directors (who together are the chief operating decision maker of Spire Healthcare) in assessing performance and in determining the allocation of resources. The financial information in those internal reports in respect of revenue and expenses has led management to conclude that the group has a single operating segment, being the provision of healthcare services. All revenue is attributable to, and all non-current assets are located in, the United Kingdom.

Revenue by location (inpatient, daycase or out-patient) and wider customer (payor) group is shown below:

(£m)	**2023**	2022
Inpatient	**535.5**	487.5
Day case	**399.9**	348.0
Out-patient	**365.4**	333.1
Other[1]	**58.2**	26.4
NHS – COVID-19	**–**	3.5
Total revenue	**1,359.0**	1,198.5
Insured	**615.7**	538.7
Self-pay	**344.0**	338.0
NHS	**341.1**	295.4
Other[1]	**58.2**	26.4
Total	**1,359.0**	1,198.5

1 Other revenue includes fees paid to the group by consultants (eg for the use of group facilities and services) and third-party revenue (eg pathology services to third parties) and rehabilitation, counselling and physiotherapy revenue from the recent VHG acquisition.

Group revenues increased 13.4% to £1,359.0 million (2022: £1,198.5 million). The increase is driven by demand for private healthcare which remained strong throughout the year. The group's self-pay business remained robust with revenue up YOY delivered through a strong focus on mix, where it targeted more complex, higher margin treatments in orthopaedics, while scaling back in high volume but low value areas such as ophthalmology and cosmetics. Included in other revenue is £31.4m related to new services of which £18.3m of revenue relates to our recent acquisition of VHG and £13.1m (2022: £0.1m) relates to The Doctors Clinic Group acquired in the prior year. Revenue from new services were not material in FY23. From FY24, new services will be presented separately.

Notes to the preliminary announcement continued

6. Other income

(£m)	2023	2022
Fair value movement on financial asset	2.8	2.3
Realised profit in respect of financial asset	0.8	0.7
Settlement from an insurer (adjusting items)	2.5	–
Total other income	6.1	3.0

The fair value movement and realised profit in respect of the financial asset reflect the on-going profit share arrangement with Genesis Care which arose as part of the sale of the Bristol Cancer Centre sold in 2019.

7. Operating profit

Arrived at after charging / (crediting):

(£m)	2023	2022
Depreciation of property, plant and equipment (see note 12)	65.5	64.2
Depreciation of right-of-use assets (see note 12)	37.5	33.7
Amortisation of intangible assets	0.6	–
Acquisition-related transaction costs (adjusting item) (see note 9)	2.5	1.8
Lease payments made in respect of low value and short leases	18.6	13.6
Provision following a court judgment related to Ian Paterson (adjusting item) (see note 9)	2.5	0.3
Impairment on assets held for sale	–	0.5
Movement on the provision for expected credit losses of trade receivables	0.5	0.9
(Profit) / loss on disposal of property, plant and equipment	(0.3)	0.3
Fair value adjustment on financial liability	–	0.8
Staff restructuring costs	2.0	4.5
Staff costs (net of staff restructuring costs and including share-based payment charge)	475.2	413.9

Inventory recognised as an expense in the current year is disclosed in note 17 of the Annual Report and Accounts.

8. Finance income and costs

(£m)	2023	2022
Finance income		
Interest income on bank deposits	1.4	–
Total finance income	1.4	–
Finance cost		
Interest on bank facilities	18.5	12.4
Refinancing fees	–	1.0
Amortisation of fee arising on facilities extensions/borrowing costs [1]	1.5	1.5
Accelerated amortisation and loss on extinguishment of loan	–	3.1
Interest on obligations under leases	73.0	73.5
Total finance costs	93.0	91.5
Total net finance costs	91.6	91.5

1. £5.0 million of borrowing costs were capitalised on the refinancing of the senior facility, these are being amortised. In the prior year £3.1m of unamortised fees on the old facility were charged to the profit and loss in the year on the extinguishment of the old facility.

9. Adjusting items

(£m)	2023	2022
Asset acquisitions, disposals, impairment and aborted project costs	3.1	4.3
Business reorganisation and corporate restructuring costs	2.0	4.5
Remediation of regulatory compliance or malpractice costs	(0.9)	1.1
Hospital set up and closure costs	–	0.3
Total pre-tax adjusting items	4.2	10.2
Income tax credit on adjusting items	0.3	(1.8)
Total post-tax adjusting items	4.5	8.4

Notes to the preliminary announcement continued

9. Adjusting items continued

Adjusting items comprise those matters where the directors believe the financial effect should be adjusted for, due to their nature, size or incidence, in order to provide a more accurate comparison of the group's underlying performance.

Asset acquisitions, disposals, impairment and aborted project costs of £3.1 million mainly relate to asset acquisitions. In October 2023, the group acquired 100% of the share capital in Vita Health Group Limited for £83.0 million as part of its strategic investment in its broader healthcare offering. The costs of acquisition of £2.5 million have been incurred in the period. Costs for integration are expected to continue into FY24. £0.4 million of integration related costs have been incurred following the acquisition of The Doctors Clinic Group in December 2022.

In the prior year, the costs mainly related to Claremont Hospital and the purchase of the remaining non-controlling interest, and an impairment of £0.5 million was recognised on the St Saviours property which was sold in H2 2022.

During H2 21, the group announced a strategic, group-wide initiative that impacts the operating model of the group to allow a more efficient governance and reporting structure, as well as a drive on digital functionality. This initiative will be implemented over several phases. In the period, £2.0 million (2022: £4.5 million) has been incurred. The initial phase of the initiative was completed in 2022, with the majority of the project completed in 2023. It is expected that some costs will be incurred in 2024 as the project enters into the next strategic phase.

The group has recognised a credit of £0.9 million during the year in respect of Remediation of Regulatory Compliance or Malpractice Costs relating to Paterson. This comprises £2.5 million funds received from its insurer and £0.9 million reduction in provision which had been held to resolve the matter. This is offset by an increased separate provision in respect of Paterson by £2.5 million (2022: £0.9 million), which relates to a detailed patient review initiative which commenced in 2021, supporting patients of Paterson. During 2023 the group has re-evaluated the expected cost of completing this complex project, and its associated settlement of patient claims.

Hospital set up and closure costs mainly relate to the maintenance costs of non-operational sites.

10. Taxation

(£m)	2023	2022
Current tax		
UK corporation tax expense	**0.9**	0.1
Adjustments in respect of prior years	**(1.3)**	(0.7)
Total current tax credit	**(0.4)**	(0.6)
Deferred tax		
Origination and reversal of temporary differences	**10.0**	(2.6)
Adjustments in respect of prior years	**(2.9)**	(1.1)
Total deferred tax charge / (credit)	**7.1**	(3.7)
Total tax charge / (credit)	**6.7**	(4.3)

In addition to the above, a credit of £0.9 million has been recognised in Other Comprehensive income (2022: £2.1 million charge) and £0.3 million credit (2022: £0.1 million charge) through equity. The £0.3 million credit through equity relates to movements on share-based payments, and reflects a £0.5 million deferred tax charge, offset by a current tax credit of £0.8 million.

Corporation tax is calculated at 23.5% (2022: 19.0%) of the estimated taxable profit or loss for the year. The effective tax rate on profit before taxation for the year is 19.4%, although not truly reflective of the current year position as a result of adjustments to the prior years (2022: not meaningful as a result of adjustments in respect of prior years and movements on deferred tax which are not directly linked to profit). Excluding the adjustments to prior years in 2023, the effective tax rate is 31.5%. The adjustments to prior years includes the recognition of a deferred tax asset in respect of Corporate Interest restrictions which has recognised a credit of £3.3 million for deferred tax purposes, as well as the recognition of deferred tax on acquired losses of £1.9 million in respect of an acquisition. In the prior year, the group reassessed the useful life and residual value of its freehold property portfolio. This resulted in a one-off deferred tax credit of £9.0 million.

The effective tax assessed for the year, all of which arises in the UK, differs from the standard weighted rate of corporation tax in the UK. The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

(£m)	2023	2022
Profit before taxation	**34.6**	3.9
Tax at the standard rate	**8.1**	0.7
Effects of:		
Expenses and income not deductible or taxable	**3.2**	8.2
Tax adjustment for the super-deduction allowance	**(0.8)**	(2.6)
Impairment charge in respect of held for sale assets (not tax deductible)	–	0.1
One-off impact of revision to useful life and residual value of freehold property portfolio (deferred tax)	–	(9.0)
Reallocation to equity	–	–
Adjustments to prior year	**(4.2)**	(1.8)
Difference in tax rates	**0.2**	0.1
Deferred tax not previously recognised	**0.2**	–
Total tax charge / (credit)	**6.7**	(4.3)

Notes to the preliminary announcement continued

10. Taxation continued

Expenses and income not deductible or taxable relate mostly to depreciation on non-qualifying fixed assets, disallowable entertaining and legal and professional fees.

The current year and prior year charges are driven by expenses not deductible for tax purposes, offset by adjustments to prior year and the claim of the super deduction for capital allowance purposes.

The group does not hold any uncertain tax positions under IFRIC 23 at the year-end (2022: none).

Pillar Two legislation, reflecting the OECDs Base Erosion Profit Shifting ('BEPs') framework, seeks to enforce a minimum tax rate on large and multinational groups in each jurisdiction in which it operates. This legislation has been enacted or substantively enacted in the UK, being the only jurisdiction in which the group operates.

The legislation will be effective for the group's financial year beginning 1 January 2024. The group has performed an assessment of the group's potential exposure to Pillar Two income taxes.

This assessment is based on the most recent information available regarding the financial performance of the constituent entities in the group. Based on the assessment performed, Pillar Two effective tax rates in the UK, being the only jurisdiction in which the group operates, has been above 15% in the current and previous financial years, and management is not currently aware of any circumstances under which this might change. Therefore, the group does not expect a potential exposure to Pillar Two top-up taxes.

11. Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2023	2022
Profit for the year attributable to ordinary equity holders of the parent (£m)	27.3	8.6
Weighted average number of ordinary shares for basic EPS (No.)	404,117,249	402,756,797
Adjustment for weighted average number of shares held in EBT	(468,363)	(77,501)
Weighted average number of ordinary shares in issue (No.)	403,648,886	402,679,296
Basic earnings per share (in pence per share)	**6.8**	**2.1**

For dilutive EPS, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares arising from share options. Refer to the Remuneration Committee Report in the Annual Report and Accounts for the terms and conditions of instruments generating potential ordinary shares that affect the measurement of diluted EPS.

	2023	2022
Profit for the year attributable to ordinary equity holders of the parent (£m)	27.3	8.6
Weighted average number of ordinary shares in issue (No.)	403,648,886	402,679,296
Adjustment for weighted average number of contingently issuable shares	9,494,645	9,363,470
Diluted weighted average number of ordinary shares in issue (No.)	413,143,531	412,042,766
Diluted earnings per share (in pence per share)	**6.6**	**2.1**

The directors believe that EPS excluding adjusting items (adjusted EPS) better reflects the underlying performance of the business and assists in providing a clearer view of the performance of the group.

Reconciliation of profit after taxation to profit after taxation excluding Adjusting items ("Adjusted profit"):

	2022	2021
Profit for the year attributable to owners of the parent (£m)	27.3	8.6
Adjusting items (see note 9)	4.5	8.4
Adjusted profit (£m)	31.8	17.0
Weighted average number of Ordinary Shares in issue	403,648,886	402,679,296
Weighted average number of dilutive Ordinary Shares	413,143,531	412,042,766
Adjusted basic earnings per share (in pence per share)	**7.9**	**4.2**
Adjusted diluted earnings per share (in pence per share)	**7.7**	**4.1**

12. Property, plant and equipment

(£m)	Freehold property	Leasehold improvements	Equipment	Assets in the course of construction	Right-of-use (ROU)	Total
Cost:						
At 1 January 2022	845.3	177.7	480.6	10.9	825.9	2,340.4
Additions	8.5	6.4	55.9	19.3	–	90.1
Acquisition of a subsidiary (note 24)	–	–	0.6	–	–	0.6
Additions to ROU assets	–	–	–	–	4. 9	4.9
Adjustments to existing assets (eg indexation)	–	–	–	–	34.0	34.0
Disposals	(3.6)	(3.7)	(71.8)	–	(0.9)	(80.0)
Transfers[1]	–	–	(10.0)	–	10.0	–
At 1 January 2023	**850.2**	**180.4**	**455.3**	**30.2**	**873.9**	**2,390.0**
Additions	**7.2**	**12.1**	**42.3**	**22.3**	**–**	**83.9**
Acquisition of a subsidiary (note 24)	**–**	**–**	**1.3**	**–**	**1.3**	**2.6**
Additions to ROU assets	**–**	**–**	**–**	**–**	**14.7**	**14.7**
Adjustments to existing assets (eg indexation)	**–**	**–**	**–**	**–**	**36.7**	**36.7**
Disposals	**(0.7)**	**(2.4)**	**(21.6)**	**(0.4)**	**(0.1)**	**(25.2)**
Transfer[1]	**3.7**	**13.3**	**9.9**	**(26.9)**	**–**	**–**
At 31 December 2023	**860.4**	**203.4**	**487.2**	**25.2**	**926.5**	**2,502.7**

(£m)	Freehold property	Leasehold improvements	Equipment	Assets in the course of construction	Right-of-use (ROU)	Total
Accumulated depreciation and impairment:						
At 1 January 2022	189.0	54.4	320.8	–	222.7	786.9
Charge for the year	12.3	9.3	42.6	–	33.7	97.9
Disposals	(3.1)	(3.6)	(71.6)	–	(0.9)	(79.2)
At 1 January 2023	**198.2**	**60.1**	**291.8**	**–**	**255.5**	**805.6**
Charge for the year	**12.2**	**9.8**	**43.5**	**–**	**37.5**	**103.0**
Disposals	**(0.6)**	**(2.4)**	**(21.6)**	**–**	**(0.1)**	**(24.7)**
Transfers[1]	**(0.2)**	**–**	**0.2**	**–**	**–**	**–**
At 31 December 2023	**209.6**	**67.5**	**313.9**	**–**	**292.9**	**883.9**
Net book value:						
At 31 December 2023	**650.8**	**135.9**	**173.3**	**25.2**	**633.6**	**1,618.8**
At 31 December 2022	652.0	120.3	163.5	30.2	618.4	1,584.4

1 In the prior year management identified a number of assets which should be reclassified from Equipment to Right of use. In the current year the transfer from assets under construction relates to assets which were brought into use. These have been reflected in the reclassification line in the note above. There is no overall impact to the carrying value of property, plant and equipment.

The net book value of land is £156.3 million (2022:£156.3 million). Nine of the group's freehold properties are pledged as security against the senior finance facility, the net book value of these properties are £124 million (2022: £157.6 million). There were no borrowing costs capitalised during the year ended 31 December 2023 (2022: Nil).

Impairment testing

The directors consider property and property right-of-use assets for indicators of impairment semi-annually. As equipment and leasehold improvements do not generate independent cash flows, they are considered alongside the property as a single cash-generating unit (CGU). When making the assessment, the value-in-use of the property is compared with its carrying value in the accounts. Where headroom is significant, no further work is undertaken. Where headroom is minimal, a detailed assessment is performed for the property, which includes identifying the factors resulting in limited headroom and undertaking financial forecasts to assess the level of sensitivity this has to key assumptions.

In order to estimate the value-in-use, management has used trading projections covering the period to December 2028 from the most recent board approved strategic plan. The variables in the cash flows are interdependent and reflect management's expectations based on past experience and current market trends, it takes into account both current business and committed initiatives. To the extent that there was a shortfall between the recent actual cash flows and forecast, the future cash flows have been adjusted to reflect any initiatives implemented by management to address the underlying cause. In addition, management consider the potential financial impact from short-term climate change scenarios, and the cost of initiatives that have substantially commenced by the group to manage the longer-term climate impacts.

Notes to the preliminary announcement continued

12. Property, plant and equipment continued

Key assumptions

Management identified a number of key assumptions relevant to the value-in-use calculations, being EBITDA growth over the five-year period, capital maintenance spend, discount rates and long-term growth rates. The assumptions are based on past experience and external sources of information.

There was one property triggered for detailed review in the period owing to the relatively lower level of headroom. Management has performed a sensitivity analysis on these properties using reasonably possible changes for each key assumption, keeping all other assumptions constant. The sensitivity analysis included an assessment of the break-even point for each of the key assumptions.

The trading projections for the five-year period underlying the value-in-use reflect a growth in EBITDA. EBITDA is based on a number of elements of the operating model over the longer term, including pricing trends, volume growth and the mix and complexity of procedures and assumptions regarding cost inflation.

The property triggered for detail review has headroom (amount that recoverable amount exceeded the carrying amount) of £3.9 million. The sensitivity analysis identified that a reasonably possible change in the EBITDA growth over the five year period for the triggered property, would result in the elimination of headroom. The average annual EBITDA growth over the five years is 8.8%. The annual EBITDA over the five year period would have to decrease by 16.0% per annum to eliminate the headroom.

During the year the group moved to a post IFRS 16 discount rate, the group has used a pre-tax discount rate of 11.5% (2022: 10.6% adjusted for the effect of IFRS 16). A long-term growth rate of 2.0% has been applied to cash flows beyond 2028 based on a long-term view of inflation, revenue growth and market conditions. Capital maintenance spend is based on historic run rates and our expectations of the group's requirements. The sensitivity testing identified no reasonably possible changes in the discount rate, capital maintenance and long-term growth rates that would cause the carrying amount of any CGU to exceed its recoverable amount.

As a result, management believe that some of the key impairment review assumptions constitute a major source of estimation uncertainty as they consider that there is a significant risk of a material change to its estimate of these assumptions within the next 12 months.

13. Intangible assets

(£m)	Goodwill	Customer contracts	IT projects	Mobilisation costs	Total
Cost or valuation:					
At 1 January 2022	535.8	–	–	–	535.8
Acquisition of a subsidiary	11.1	–	–	–	11.1
Adjustment to prior year goodwill acquired	(0.1)	–	–	–	(0.1)
At 31 December 2022	**546.8**	**–**	**–**	**–**	**546.8**
Acquisition of a subsidiary	**65.3**	**20.6**	**4.3**	**2.4**	**92.6**
Additions	**–**	**–**	**0.3**	**0.2**	**0.5**
At 31 December 2023	**612.1**	**20.6**	**4.6**	**2.6**	**639.9**
Impairment:					
At 31 January 2022 and 31 December 2022	**201.0**	**–**	**–**	**–**	**201.0**
Amortisation charge during the year	**–**	**0.2**	**0.3**	**0.1**	**0.6**
At 31 December 2023	**201.0**	**0.2**	**0.3**	**0.1**	**201.6**
Carrying amount:					
At 31 December 2023	**411.1**	**20.4**	**4.3**	**2.5**	**438.3**
At 31 December 2022	345.8	–	–	–	345.8

Notes to the preliminary announcement continued

13. Intangible assets continued

Acquisition during the year

On 18 October 2023, the group acquired 100% of the voting shares of Vita Health Group, a non-listed company based in England who are a provider of mental and physical health services in the UK, for a net cash consideration of £73.2 million generating goodwill of £65.3 million. On acquisition the group acquired £27.3 million of other intangible assets relating to IT projects, mobilisation costs related to NHS contracts and customer relationship contracts. In determining the fair value of intangible assets acquired in line with IFRS 3 the group obtained an independent valuation of customer contracts relating to NHS and corporate contracts and recognised acquired intangibles of £20.1 million.

Impairment testing

The directors treat the hospital business and The Doctors Clinic Group as separate cash-generating units for the purposes of testing goodwill for impairment as the goodwill can be reliably allocated. The goodwill recognised for the VHG acquisition has not yet been allocated as the initial accounting is not yet complete. The recoverable amount of goodwill is calculated by reference to its estimated value-in-use. In order to estimate the value-in-use, management has used trading projections covering the period to December 2028 from the most recent board-approved strategic plan. The variables in the cash flows are interdependent and reflect management's expectations based on past experience and current market trends, it takes into account both current business and committed initiatives. In addition, management consider the potential financial impact from short-term climate change scenarios, and the cost of initiatives by the group to manage the longer-term climate impacts.

Key assumptions

Management identified a number of key assumptions relevant to the value-in-use calculations, being EBITDA growth over the five-year period, capital maintenance spend, discount rates and long-term growth rates. The assumptions are based on past experience and external sources of information.

Management has performed a sensitivity analysis using reasonably possible changes for each key assumption, keeping all other assumptions constant. The sensitivity analysis included an assessment of the break-even point for each of the key assumptions.

The table below provides the headroom and the reasonably possible change identified in the sensitivity analysis mentioned above which would result in the elimination of headroom.

Cash generating unit	Headroom (the amount that recoverable amount exceeded the carrying amount) £m	Average EBITDA growth over the five year period	Sensitivity for decrease of average EBITDA per annum
Hospital business	**793.7**	**9.0%**	**23.2%**
The Doctors Clinic Group ("DCG")	**7.2**	**87.9%**	**30.3%**

The trading projections for the five-year period underlying the value-in-use reflect a growth in EBITDA. EBITDA is dependent on a number of elements of the operating model over the longer term, including pricing trends, volume growth and the mix and complexity of procedures and assumptions regarding cost inflation. During the year DCG made a small loss owing to the effect of integration costs, one off investments in new clinics and a planned delay in the offer of in-house laboratory services. This is now rolling out and 2024 is expected to see a return to profitability, which is factored into the growth in EBITDA.

During the year the group moved to a post IFRS 16 discount rate, and has used a pre-tax discount of 11.5% (2022: 10.6% adjusted for the effect of IFRS 16).

A long-term growth rate of 2.0% has been applied to cash flows beyond 2028 based on long-term view of inflation and market conditions. Capital maintenance spend is based on historic run rates and our expectation of the group's requirements. The sensitivity testing identified no reasonably possible changes in the capital maintenance and long-term growth rates that would cause the carrying amount of any CGU to exceed its recoverable amount.

As a result, management believe that some of the key impairment review assumptions constitute a major source of estimation uncertainty as they consider that there is a significant risk of a material change to its estimate of these assumptions within the next 12 months.

14. Trade and other receivables

(£m)	2023	2022
Amounts falling due within one year:		
Trade receivables	**74.8**	59.8
Unbilled receivables	**20.2**	18.2
Prepayments	**21.9**	15.7
Other receivables	**10.2**	11.8
	127.1	105.5
Allowance for expected credit losses	**(5.5)**	(5.0)
Total current trade and other receivables	**121.6**	100.5

Unbilled receivables reflects work in progress where a patient had treatment, or was receiving treatment, at the end of the period and the invoice had not yet been raised.

Notes to the preliminary announcement continued

14. Trade and other receivables continued

Other receivables includes the £4.6 million insurance reimbursement right (2022: £5.4 million); as well as £4.1 million (2022: £2.6 million) reimbursement right related to the Paterson fund, which is being held by solicitors on account until payments are made, with any amount not paid out being returned to Spire Healthcare. During the year, £3.9 million was paid out of this fund and an additional £5.5 million was paid into the fund. The amounts paid to the new Paterson fund do not reflect an investment in a financial asset, but merely a right to reimbursement should the fund not be utilised in full.

Trade and other receivables of £12.7 million have been recognised on the acquisition of Vita Health Group during the year (note 24).

Trade receivables comprise amounts due from private medical insurers, the NHS, self-pay patients, consultants and other third parties who use the group's facilities. Invoices to customers fall due within 60 days of the date of issue.

The group was successful in its bid to be included on the NHSE Framework for purchasing additional activity from the independent sector, which commenced in April 2021. Inclusion on the Framework is at an agreed price for activity, based on the NHS tariff, but carries no guaranteed volumes. For contracts under the framework that include an estimated contract value, billing is in advance for the expected volume, with a quarterly true-up for actual volumes undertaken. For contracts under the framework without an estimated contract value (which can include local agreements), billing is in arrears based on actual volumes only.

The ageing of trade receivables is shown below and shows amounts that are past due at the reporting date (excluding payments on account where there is no right to offset these at the reporting date). A provision for expected credit losses has been recognised at the reporting date through consideration of the ageing profile of the group's trade receivables and the perceived credit quality of its customers reflecting net debt due. The carrying amount of trade receivables, net of expected credit losses, is considered to be an approximation to its fair value.

The loss allowance as at 31 December 2023 for trade receivables was determined as follows:

	Current	0-30 days	31-90 days	91-364 days	1-2 years	Total
Expected loss rate	**0.0%**	**2.7%**	**16.3%**	**29.0%**	**41.9%**	**5.1%**
Gross debt (£m)	75.3	14.8	4.3	6.2	6.2	106.8
Less payments on account (£m)						(32.0)
Carrying amount of trade receivables (£m)						74.8
Loss allowance (£m)	–	0.4	0.7	1.8	2.6	5.5

The loss allowance as at 31 December 2022 for trade receivables was determined as follows:

	Current	0-30 days	31-90 days	91-364 days	1-2 years	Total
Expected loss rate	0.0%	1.8%	8.3%	29.2%	17.5%	7.2%
Gross debt (£m)	27.8	16.8	8.4	8.9	8.0	69.9
Less payments on account (£m)						(10.1)
Carrying amount of trade receivables (£m)						59.8
Loss allowance (£m)	–	0.3	0.7	2.6	1.4	5.0

Trade receivables are written off when there is no longer a reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and failure to make contractual payments for a period of greater than two years past due.

The group assesses on a forward-looking basis expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied for trade receivables is the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables.

Trade receivables after expected credit losses comprise the following wider customer/payor groups:

(£m)	2023	2022
Private medical insurers	**29.5**	30.4
NHS	**25.0**	8.2
Patient debt	**4.1**	7.2
Other	**10.7**	9.0
	69.3	54.8

Notes to the preliminary announcement continued

14. Trade and other receivables continued

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

(£m)	2023	2022
At 1 January	5.0	4.1
Provided in the year	1.6	1.1
Utilised during the year	(0.3)	(0.2)
Released during the year	(0.9)	–
At 31 December	5.5	5.0

The group applies the IFRS 9 simplified approach to measuring Expected Credit Losses (ECLs) for trade receivables. Under this standard, lifetime ECL provisions are recognised for trade receivables using a matrix of rates dependent on age thresholds and customer types. The ECL rates are determined with reference to historical performance of each payor age group during the last two years.

To develop the ECL matrix, trade receivables were grouped according to shared characteristics (payor/payor type) and the days past due. As the majority of the group's debt is receivable from large, well-funded insurance companies, the National Health Service or from a large number of individuals, the group has concluded that historical debt performance of the portfolio during the last two reporting periods provides a reasonable approximation of the future expected loss rates for each payor age category.

15. Non-current assets held for sale

As at 31 December 2023 the group's management have committed to sell a parcel of land at Bostocks Lane as the group has accepted an offer on the property. The sale is considered highly probable and the assessment has not changed. It therefore remains as classified as held for sale.

(£m)	2023	2022
Bostocks Lane (East Midlands Cancer Centre)	1.1	1.1
	1.1	1.1

16. Share capital and reserves

	2023	2022
Authorised shares		
Ordinary share of £0.01 each	404,126,630	404,108,470
	404,126,630	404,108,470

Issued and fully paid	£0.01 ordinary shares	
	Shares	£'000
At 31 December 2023	404,126,630	4,042
At 31 December 2022	404,108,470	4,041

During the year, the authorised share capital was increased by £181.60 by the issue of 18,160 ordinary shares of £0.01 each.

Share premium

(£m)	2023	2022
At 1 January	830.0	826.9
Issue of new shares	–	3.1
At 31 December	830.0	830.0

During the year the group issued 18,160 shares to settle share awards of which 18,160 shares were exercised under the save as you earn 2019 scheme at an average price of £1.09 per share. The proceeds from the issue of shares were £29,163.

Capital reserves

This reserve represents the loans of £376.1 million due to the former ultimate parent undertaking and management that were forgiven by those counterparties as part of the reorganisation of the group prior to the IPO in 2014.

16. Share capital and reserves continued

EBT share reserves

Equiniti Trust (Jersey) Limited is acting in its capacity as trustee of the company's Employee Benefit Trust (EBT). The purpose of the EBT is to further the interests of the company by benefitting employees and former employees of the group and certain of their dependants. The EBT is treated as an extension of the group and the company.

During the year, the EBT purchased 1,339,634 shares and exercised 1,054,620 shares (2022: 88,354 shares issued and 300,491 exercised) in order to settle share awards in relation to the directors' share bonus award and Long-Term Incentive Plan.

Where the EBT purchases the company's equity share capital the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. As at 31 December 2023, 312,160 shares (2022: 27,146) were held by the EBT in relation to the directors' share bonus award and Long-Term Incentive Plan. The EBT share reserve represents the consideration paid when the EBT purchases the company's equity share capital, until the shares are reissued.

As with prior years, the company will continue to fund the Spire Healthcare Employee Benefit Trust (EBT), a discretionary trust held for the benefit of the group's employees, for the ongoing acquisition of shares to satisfy the exercise of share plan awards by employees.

	2023 number of shares	2023 £m	2022 number of shares	2022 £m
At 1 January	27,146	–	239,283	0.8
Purchased	1,339,634	3.1	88,354	–
Exercised	(1,054,620)	(2.4)	(300,491)	(0.8)
At 31 December	312,160	0.7	27,146	–

Hedging reserve

The balance of £3.3 million at 31 December 2023 (2022: £6.6 million) reflects the £4.4 million debit (2022: £1.2 million credit) recycled in the period, the fair value credit of £0.2 million (2022: £8.1 million credit) and the £0.9 million tax credit on the profit (2022: £2.2 million charge) to give a net movement of a decrease of £3.3 million during the year (2022: an increase of £7.1 million) on a hedged transaction. See note 17 for further information.

17. Borrowings

The group has borrowings in two forms, bank borrowings and lease liabilities as disclosed on the consolidated balance sheet. Total borrowings at 31 December 2023 were £1,257.0 million (2022: £1,190.8 million). More detail in respect of these two forms of borrowings are set out below.

Bank borrowings

The bank loans are secured on fixed and floating charges over both the present and future assets of material subsidiaries of the group. On 24 February 2022, the group successfully refinanced its debt facilities with a syndicate of existing and new lenders. As part of the exercise and in recognition of the fact that the group had substantial cash reserves at 31 December 2021, the group repaid £100.0 million of the Senior Loan Facility. During the year the group exercised its option to extend the facility by one year the arrangement has a maturity of February 2027. The financial covenants relating to this new agreement are materially unchanged. The loan is non-amortising and carries interest at a margin of 2.05% over SONIA (2022: 2.05% over SONIA).

The group drew down £60.0 million on its revolving credit facility to acquire Vita Health Group in October 2023. Since the acquisition the group has repaid £20.0 million.

(£m)	2023	2022
Amount due for settlement within 12 months	3.4	2.9
Amount due for settlement after 12 months	361.9	321.4
Total bank borrowings	365.3	324.3

Terms and debt repayment schedule

The maturity date is the date on which the relevant bank loans are due to be fully repaid.

The carrying amounts drawn (after issue costs and including interest accrued) under facilities in place at the balance sheet date were as follows:

(£m)	Maturity	Margin over SONIA	2023	2022
Senior finance facility	February 2027	2.05%	325.3	324.3
Revolving credit facility	February 2027	1.95%	40.0	–

Net debt for the purposes of the covenant test in respect of the Senior Loan Facility was £315.4 million (December 2022: £250.8 million) and the net debt to EBITDA ratio was 2.2x (December 2022: 2.2x). The net debt for covenant purposes comprises the senior facility of £325.0 million, drawn revolving credit facility of £40.0 million less cash and cash equivalents of £49.6 million. EBITDA for covenant purposes comprises Adjusted EBITDA for Last Twelve Months (LTM) of pre-IFRS 16 Adjusted EBITDA of £152.9 million (December 2022: 123.9 million) less the rental of a finance lease pre-IFRS 16 of £10.0 million (2022: £9.5 million).

17. Borrowings continued

Bank borrowings continued

The interest cover for covenant purposes was 8.5x (2022: 8.5x) and is calculated as the pre-IFRS 16 EBITDA described above over pre-IFRS 16 finance costs paid.

The senior finance facility includes a sustainability-linked element connected to environmental and quality factors. The group also has access to a further £60.0 million through a committed and undrawn revolving credit facility to February 2027.

Lease liabilities

The group has finance in respect of hospital properties, vehicles, office and medical equipment. The leases are secured on fixed and floating charges over both the present and future assets of material subsidiaries in the group. Leases, with a present value liability of £891.7 million (2022: £866.5 million), expire in various years to 2046 and carry incremental borrowing rates in the range 3.2% - 14.6% (2022: 3.1% - 14.6%). Rents in respect of hospital property leases are reviewed annually with reference to RPI or CPI, subject to assorted floors and caps. The discount rates used are calculated on a lease by lease basis, and are based on estimates of incremental borrowing rates. A movement in the incremental borrowing rate of 1% would result in an 7.5% movement in lease liability.

In the year, the group recognised charges of £3.8 million (2022: £3.3 million) of lease expenses relating to low value leases and £14.8 million (2022: £10.3 million) of lease expense in respect of short-term leases for which the exemption under IFRS 16 has been taken. Cash outflows in respect of these are materially in line with the expense recognised, resulting in a total cash outflow of £118.8 million (2022: £105.6 million). The group has not made any variable lease payments in the year. The group is not a lessor for any leases to external parties. Where new leases have the right to extend and management is not reasonably certain to exercise the extension option, those future cash flows are not reflected in the above.

Some leases receive RPI increases on an annual basis which affects both the cash flow and interest charged on those leases. Except for this increase, cash flows and charges are expected to remain in line with current year. The cash flows above do not reflect any termination, extension or break clause options as management is reasonably certain that the options will not be exercised. There are no significant restrictions or covenants which impact the cash flows in respect of these leases.

See note 12 for more detail on the depreciation of the Right-of-use (ROU) assets and note 8 for more detail on the interest expense relating to leases.

Changes in bank borrowings and leases liabilities arising from financing activities

(£m)	1 January	Cash flows	Non cash changes[1]	Additions[2]	31 December
2023					
Bank loans	**324.3**	**(17.0)**	**18.0**	**40.0**	**365.3**
Lease liabilities	**866.5**	**(100.2)**	**73.0**	**52.4**	**891.7**
Total	**1,190.8**	**(117.2)**	**91.0**	**90.8**	**1,257.0**

(£m)	1 January	Cash flows	Non cash changes[1]	Additions[2]	31 December
2022					
Bank loans	427.5	(121.1)	17.9	–	324.3
Lease liabilities	837.8	(93.7)	73.5	48.9	866.5
Total	1,265.3	(214.8)	91.4	48.9	1,190.8

1 Non-cash changes reflect interest charged on the loan

2 Additions include both new leases entered into, indexation of existing leases and acquisitions of subsidiaries.

Derivatives

The following derivatives were in place at 31 December:

	Interest rate	Maturity date	Notional amount	Carrying value Asset
31 December 2023 (£m)				
Interest rate swaps	2.7780%	Feb 2026	243.8	4.4
31 December 2022 (£m)				
Interest rate swaps	2.7780%	Feb 2026	243.8	8.6

(£m)	2023	2022
Amount due for settlement within 12 months	**4.0**	3.6
Amount due for settlement after 12 months	**0.4**	5.0
Total derivatives	**4.4**	8.6

Notes to the preliminary announcement continued

17. Borrowings continued

Derivatives continued

The group entered into interest rate swaps on the 25 July 2022. The movement in respect of derivatives reflects £4.4 million (December 2022: £1.2 million) recycled in the period and a £0.2 million credit (December 2022: £8.1 million credit) in fair value. All movements are reflected within other comprehensive income.

18. Provisions

(£m)	Medical malpractice	Business restructuring and other	Total
At 1 January 2023	**19.4**	**2.3**	**21.7**
Increase in existing provisions	**3.8**	**–**	**3.8**
Provisions utilised	**(7.1)**	**(1.0)**	**(8.1)**
Provisions released	**(1.0)**	**–**	**(1.0)**
At 31 December 2023	**15.1**	**1.3**	**16.4**

Medical malpractice relates to estimated liabilities arising from claims for damages in respect of services previously supplied to patients. During the period £3.8 million was added due to additional claims received, and £7.1 million utilised and £1.0 million was released. Amounts are shown gross of insured liabilities. Any such insurance recoveries of £4.6 million (December 2022: £5.4 million) are recognised in other receivables.

In response to the publication of the Public Inquiry report on Paterson on 4 February 2020, Spire Healthcare established a provision in respect of implementing the recommendations including a detailed patient review and support for patients. The provision is being utilised, including £9.2 million in patient claim settlements. The provision to complete the reviews, settle any claims and costs in respect of other Paterson items has been increased by £2.5 million. The project is complex and the process for review and settlement takes some time. It is possible that, as further information becomes available, an adjustment to this provision will be required, but at this time, it reflects management's best estimate of the costs and settlement of claims at this point. The variables include the number of patients which are found to have been harmed following review, the level of harm, and the associated compensation claim, as well as the time to review each case can vary significantly. This provision remains subject to ongoing review. In addition, and as disclosed in note 9 adjusting items, this was offset by the release of a £0.9 million provision which had been held to resolve a matter with an insurer.

As at 31 December 2023, the remaining business restructuring and other provisions primarily includes acquisition related provisions related to tax matters other than income tax which is expected to be utilised or released as the relevant tax years close for review. During the year the group settled non-patient claims as appropriate and sought external counsel on this settlement.

Provisions as at 31 December 2023 are materially considered to be current and expected to be utilised at any time within the next twelve months, subject to external factors beyond the group's control.

19. Trade and other payables

(£m)	2023	2022
Trade payables	**63.9**	67.2
Accrued expenses	**65.9**	58.4
Deferred income	**10.4**	–
Social security and other taxes	**15.2**	9.7
Other payables	**41.7**	29.2
Trade and other payables	**197.1**	164.5

Trade and other payables of £26.1 million have been added on the acquisition of Vita Health Group during the year (see note 24) of which £10.4 million relates to deferred income related to contract revenue.

Accrued expenses includes general operating expenses incurred but not invoiced as at the year end, as well as holiday pay accrued of £2.1 million (2022: £5.2million), and bonuses accrued during the year and paid during the following year of £12.7 million (2022: £7.0 million).

Other payables include an accrual for pensions and payments on account. Revenue is not recognised in respect of payments on account until the performance obligation has been met at year end the balance of payments on account was £10.3 million (2022: £11.9 million). In addition other credit balances re-classed from trade debtors were £32.0 million (2022: £28.2 million), which largely relate to NHS credits. Payments on account are expected to be utilised against patient procedures within the following 12 months. The balance of payments on account as at 31 December 2022 were utilised in the current year when the patient attended the procedure, and not cancelling or deferring treatment, such payments on account could result in repayment to the patient should they request so.

20. Share-based payments

The group operates a number of share-based payment schemes for Executive directors and other employees, all of which are equity settled.

The group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost in respect of LTIPs and SAYE recognised in the income statement was £3.7 million in the year ended 31 December 2022 (2022: £2.3 million). Employer's National Insurance is being accrued, where applicable, at the rate of 14.3%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total National Insurance charge for the year was £0.4 million (2022: £0.3 million).

The following table analyses the total cost between each of the relevant schemes, together with the number of options outstanding:

	2023		2022	
	Charge £m	**Number of options (thousands)**	Charge £m	Number of options (thousands)
Long Term Incentive Plan	**3.0**	**12,394**	1.8	12,787
Deferred Share Bonus Plan	**–**	**449**	–	525
Save As You Earn (SAYE)	**0.7**	**3,252**	0.5	3,652
	3.7	**16,095**	2.3	16,964

A summary of the main features of the scheme is shown below:

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is open to executive directors and designated senior managers, and awards are made at the discretion of the remuneration committee. Awards are subject to market and non-market performance criteria.

Awards granted under the LTIP vest subject to achievement of performance conditions measured over a period of at least three years, unless the committee determines otherwise. Awards may be in the form of conditional share awards or nil-cost options or any other form allowed by the plan rules.

Vesting of awards will be dependent on a range of financial, operational or share price measures, as set by the committee, which are aligned with the long-term strategic objectives of the group and shareholder value creation. No less than 30% of an award will be based on share price measures. The remainder will be based on either financial and/or operational measures. At the threshold performance, no more than 25% of the award will vest, rising to 100% for maximum performance.

On 15 March 2023, the company granted a total of 2,980,384 options to the executive directors and other senior management. The options will vest based on return on capital employed (ROCE) (35%) targets for the financial year ending 31 December 2025, relative total shareholder return (TSR) (35%) targets on performance over the three-year period to 31 December 2025 and operational excellence (OE) (30%) targets based on employee engagement targets and regulatory ratings for the current portfolio of hospitals, subject to continued employment. Upon vesting, the options will remain exercisable until March 2033. The executive directors are subject to a two-year holding period, whilst other senior management are not.

Deferred Share Bonus Plan

The Deferred Share Bonus Plan is a discretionary executive share bonus plan under which the remuneration committee determines that a proportion of a participant's annual bonus will be deferred. The market value of the shares granted to any employee will be equal to one-third of the total annual bonus that would otherwise have been payable to the individual. The awards will be granted on the day after the announcement of the group's annual results. The awards will normally vest over a three-year period.

On 15 March 2023, the company granted a total of 168,042 options to executive directors, with a vesting date of 14 March 2026. There are no performance conditions in respect of the scheme and is subject to continued employment.

Save As You Earn

The Save As You Earn (SAYE) is open to all Spire Healthcare employees. Vesting will be dependent on continued employment for a period of three years from grant. The requirement to save is a non-vesting condition.

21. Commitments

Consignment stock

At 31 December 2023, the group held consignment stock on sale or return of £24.5 million (2022: £24.3 million). The group is only required to pay for the equipment it chooses to use and therefore this stock is not recognised as an asset.

Capital commitments

Capital commitments comprise amounts payable under capital contracts which are duly authorised and in progress at the consolidated balance sheet date. They include the full cost of goods and services to be provided under the contracts through to completion. The group has rights within its contracts to terminate at short notice and, therefore, cancellation payments are minimal.

Capital commitments at the end of the year were as follows:

(£m)	**2023**	2022
Contracted but not provided for	**31.6**	27.0

Notes to the preliminary announcement continued

22. Contingent liabilities

The group had the following guarantees at 31 December 2023:

- the bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5 million (2022: £1.5 million) in relation to contractual pension obligations.
- under certain lease agreements entered into on 26 January 2010, the group has given undertakings relating to obligations in the lease documentation and the assets of the group are subject to a fixed and floating charge.

23. Financial liabilities

Financial instruments to purchase non-controlling interest

In the period, the group entered into an agreement with the non-controlling interest of one of its subsidiaries, Montefiore House Limited, in which both parties can exercise an option for Spire to purchase the remaining 25% interest in the subsidiary at a future date. The purchase price is calculated in line with pre-determined metrics which are based on the subsidiary's EBITDA performance and the group multiple. The option can be exercised between two to five years. The expected future cash flow to settle the obligation is discounted at the group cost of debt of 8.1%. The financial liability is initially recognised through equity at the present value of future cash flows and subsequently recognised at amortised cost.

(£m)	2023	2022
Valuation at 1 January	–	–
Option to purchase non-controlling interests	9.6	–
Valuation at 31 December	**9.6**	–

24. Business combinations and acquisition of non-controlling interests

Acquisitions in 2023

Acquisition of Kingfisher TopCo Limited (together 'Vita Health Group')

On 18 October 2023, the group acquired 100% of the voting shares of Kingfisher TopCo Limited (which in turn owns 100% of the shares of Vita Healthcare Group), a non-listed company based in England a market-leading provider of mental and physical health services in the UK, for £83.0 million and a net cash consideration of £73.2 million. This acquisition complements our existing business and aligns well with our strategy of developing new services and moving into adjacent markets.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Vita Health Group as at the date of acquisition were:

(£m)	Fair value recognised on acquisition
Assets	
Intangible assets (note 13)	27.3
Plant, property and equipment (note 12)	1.3
Right of use assets	1.3
Trade and other receivables (note 14)	12.7
Cash	9.8
	52.4
Liabilities	
Payables	(26.1)
Income tax and withholding tax payable	(2.3)
Deferred tax liability	(5.0)
Lease liabilities	(1.3)
	(34.7)
Total identifiable net assets at fair value	**17.7**
Goodwill arising on acquisition (note 13)	65.3
Purchase consideration transferred	**83.0**

Notes to the preliminary announcement continued

24. Business combinations and acquisition of non-controlling interests continued

Acquisitions in 2023 continued

Acquisition of Kingfisher TopCo Limited (together 'Vita Health Group') *continued*

The initial accounting for the business combination is not complete due to the timing of the acquisition which occurred close to the year end. Amounts recognised, are subject to adjustment in line with IFRS 3 for up to 12 months from acquisition, with goodwill being adjusted accordingly. Therefore, goodwill has not been allocated.

The fair value of the trade receivables amounts to £12.7 million. The gross amount of trade receivables is £13.2 million and it is expected that the full contractual amounts can be collected.

From the date of acquisition, Vita Health Group contributed £18.3 million of revenue and profit of £1.1 million to profit before tax from continuing operations of the group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been £1,450.5 million and loss before tax from continuing operations for the group would have been £40.1 million.

Goodwill has been recognised to reflect the synergies which the group believes are available to expand its offering for mental and physical health services in line with its strategic plan which reflect intangibles that cannot be separately quantified. This goodwill is not deductible for tax purposes.

Purchase consideration transferred

(£m)	Cash flow on acquisition
Net cash acquired with the subsidiary	9.8
Cash paid	83.0
Net cash flow on acquisition	73.2

Transaction costs of £2.5 million were expensed and are included within adjusting items.

Prior year Acquisition of Doctors Clinic Group Limited (together "The Doctors Clinic Group")

During the year the group reviewed its goodwill position in respect of The Doctors Clinic Group in line with IFRS 3 and no adjustment has been recognised.

25. Events after the reporting period

There have been no other events to disclose after the reporting date.

Shareholders' information

Registered Office and Head Office:

Spire Healthcare group plc
3 Dorset Rise
London
EC4Y 8EN
Tel +44 (0)20 7427 9000
Fax +44 7427 9001

(Registered in England & Wales No. 09084066)

Corporate Website

Shareholder and other information about the company can be accessed on the company's website:
www.spirehealthcare.com

Financial Calendar

2024 Annual General Meeting (London) 9 May 2024
Announcement of 2024 half year results September 2024