

THE MONTREUX HEALTHCARE FUND PLC UPDATE

NOVEMBER 2023



On 3rd October 2022, The Montreux Healthcare Fund Plc (“the Fund”) closed in anticipation of a sale. Shortly thereafter, some radical economic ideas, were introduced by the new Prime Minister which markets were not anticipating. The release of these ideas triggered many investors to re-evaluate the UK economy, making asset sales in Private Equity uncertain. For this reason, it was decided to delay the sale, launching a two-tier process whilst sentiment towards the UK economy recovered. In the interim, an inflation crisis hit the UK economy leading to rising interest rates and further deepening negative sentiment towards the UK economy, which negatively impacted the Credit Suisse led process.

Additionally, these factors have a real-world impact upon businesses, including the Fund’s operating business the Active Care Group (“ACG”). These impacts are explored in what follows, however, at present the impact of these factors mean the Fund’s Investment Advisor - Montreux Capital Management (UK) Limited (“MCM (UK)”) - feel that selling ACG at this time would be unwise. MCM (UK) aim to commence a sales process as soon as the asset and UK economy recover. The Fund will remain closed during this time until a liquidity event is achieved, which is currently expected to be December 2025.

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MACROECONOMIC HEADWINDS

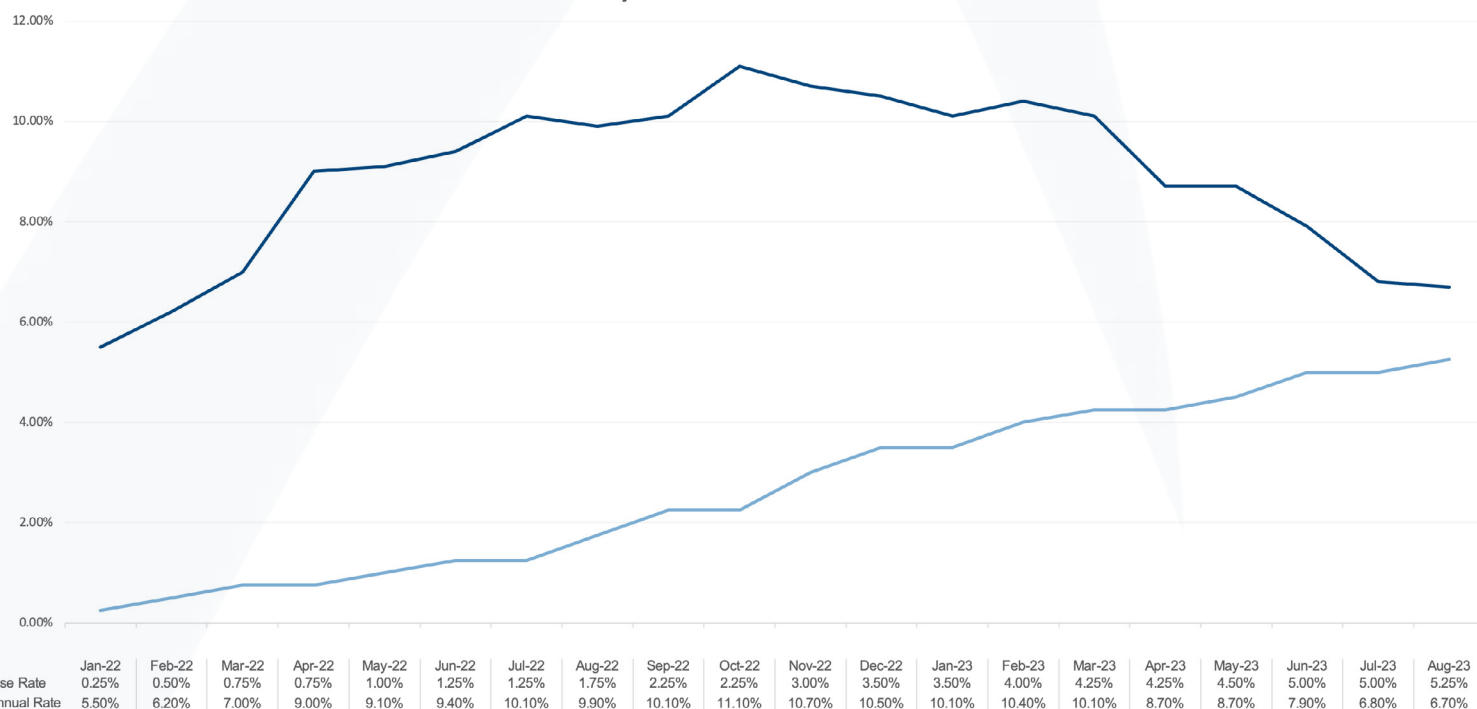
Inflation and interest rate environment

- Average inflation in the period January 2022 to August 2023 of 8.90% peaking at 11.1% in October 2022.
- General inflation across the business:
 - Utility price increases of c.£2m p.a.
 - Business rates increased more than 10%.
 - Food inflation which is a key care business cost peaked to 19.1% in March 2023.
- National Health Service and Local Authority budgets have been under strain for some time. In a high inflation environment they are ill equipped to meet rising prices. This is coupled with the UK government's unwillingness to meet general cost increases to curb inflation by restricting the money supply to the economy.
- As a result of this inflation, the UK base rate has increased by 5% since January 2022.
- The interest rate environment is putting significant pressure on free cash flow in care businesses, impacting the ability to maintain services to the required level and invest and grow these businesses.

Sectoral staffing crisis

- Sectoral labour shortages increase the cost of both permanent and agency staff. Care sector wages are highly correlated to both NHS staff rates and increases in the National Living Wage.
- Labour Market shortages combined with aggressive wage inflation:
 - Led to a 25% reduction in ACG's Care in the Home division, resulting from an inability to fulfill staffing packages.
 - National shortages in Consultants and Therapists are driving up rates and usage of Locums by 85%.
 - Nurses and Junior Doctor strikes adding further pressures to pay rates.
 - Significant increases required in employee benefits/incentives to attract and retain staff which add additional cost to care businesses.

Monthly CPI and UK Base Rate



- Notably, business failures have doubled in the period as companies struggle with rising costs and debt servicing.



MACROECONOMIC HEADWINDS

Peer analysis of the care sector

Most businesses in the care sector are privately owned and hence, accurate reporting on sectoral performance has always been a challenge. MCM (UK) has sourced some information on the performance of the sector from various public and private sources to contextualise ACG's position and illustrate the wider challenges of the current macroeconomic headwinds. Over the most recent reporting period:

- Elysium Healthcare (4th largest in the sector): despite rising occupancy and revenue, EBITDA is down 51.4%.
- Lifeways (14th largest in the sector): recently restructured with full ownership transferring to the debt providers.
- Achieve Together, previously The Regard Partnership (5th largest in the sector): saw a c.75% reduction in operating profit despite small growth in revenue.

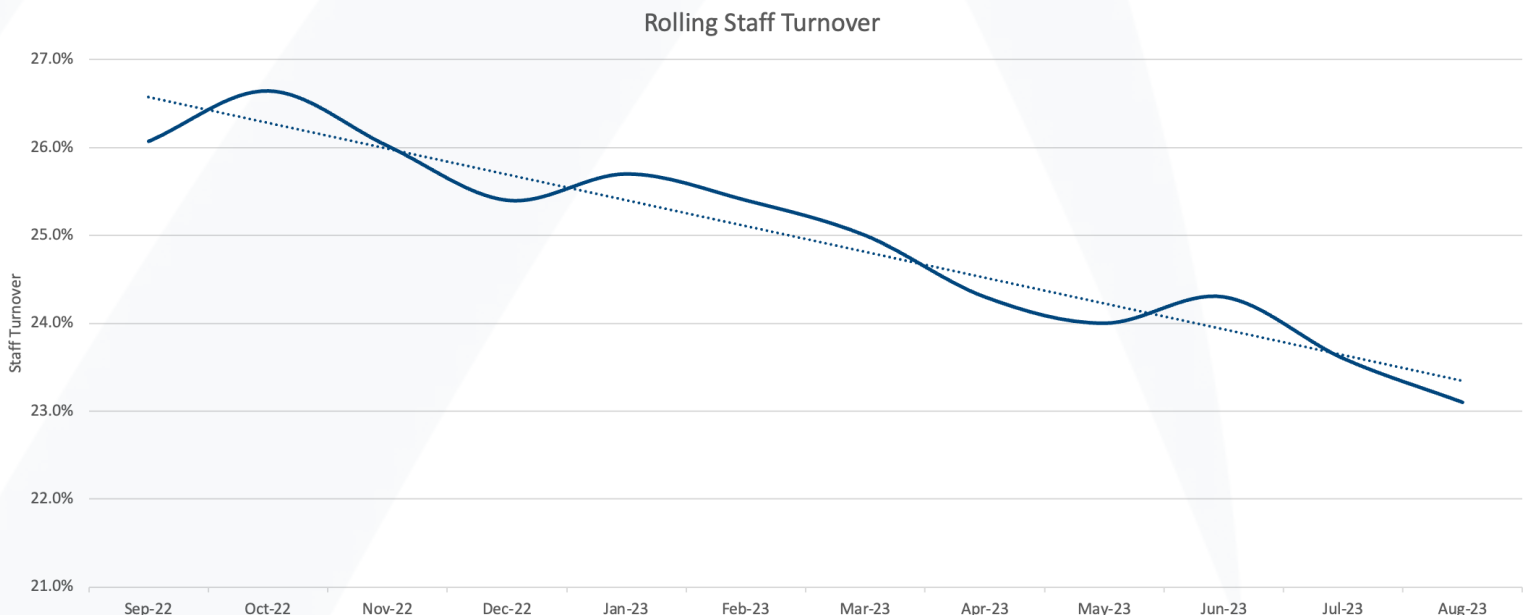
CURRENT APPRAISAL OF THE BUSINESS

The last 18 months have seen a decline in ACG's performance, significant macroeconomic factors have made trading more difficult for the whole sector. Despite these headwinds the business remains operationally strong:

Operational highlights

Staffing

- Continued improvement in staff turnover, currently c.23% versus industry averages of mid-30%'s.



Valuation

Due to the substantial drop of EBITDA and the possibility of recovery in the near term, it is difficult to define a Net Asset Value. The Board have commissioned BDO LLP to compile a thorough independent report on ACG.



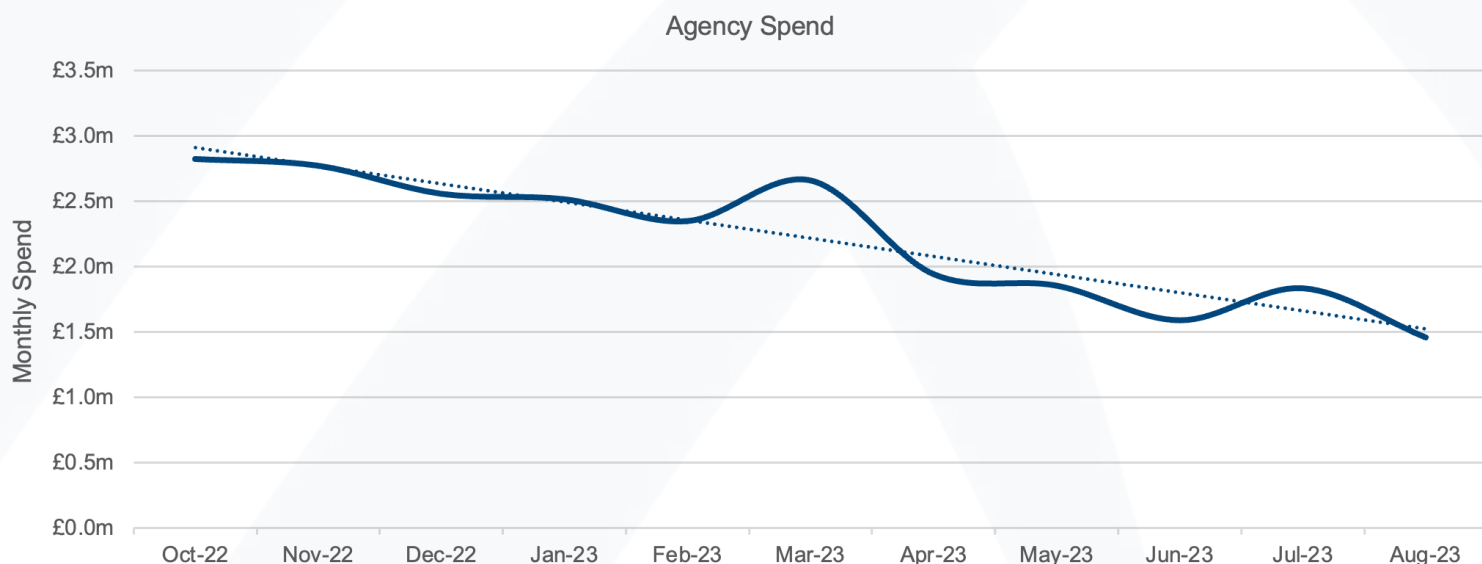
CURRENT APPRAISAL OF THE BUSINESS

Agency

- 50% reduction in agency spend as a result of:
 - Investment in Terms and Conditions.
 - Use of ACG's internal international staffing business.
 - Wider economic factors impacting other sectors, injecting more workers into the economy in general.
 - Improvement in retention metrics.

Fee rate increases

- 6.5% fee uplifts achieved over total group revenue to date.
- Resulting in £11.3m annualised revenue increase.
- Despite falling short of general cost increases in the business, an uplift of this size proves the ability to recover significant cost in a normal inflation environment.



KEITH BROWNER – CEO SPOTLIGHT

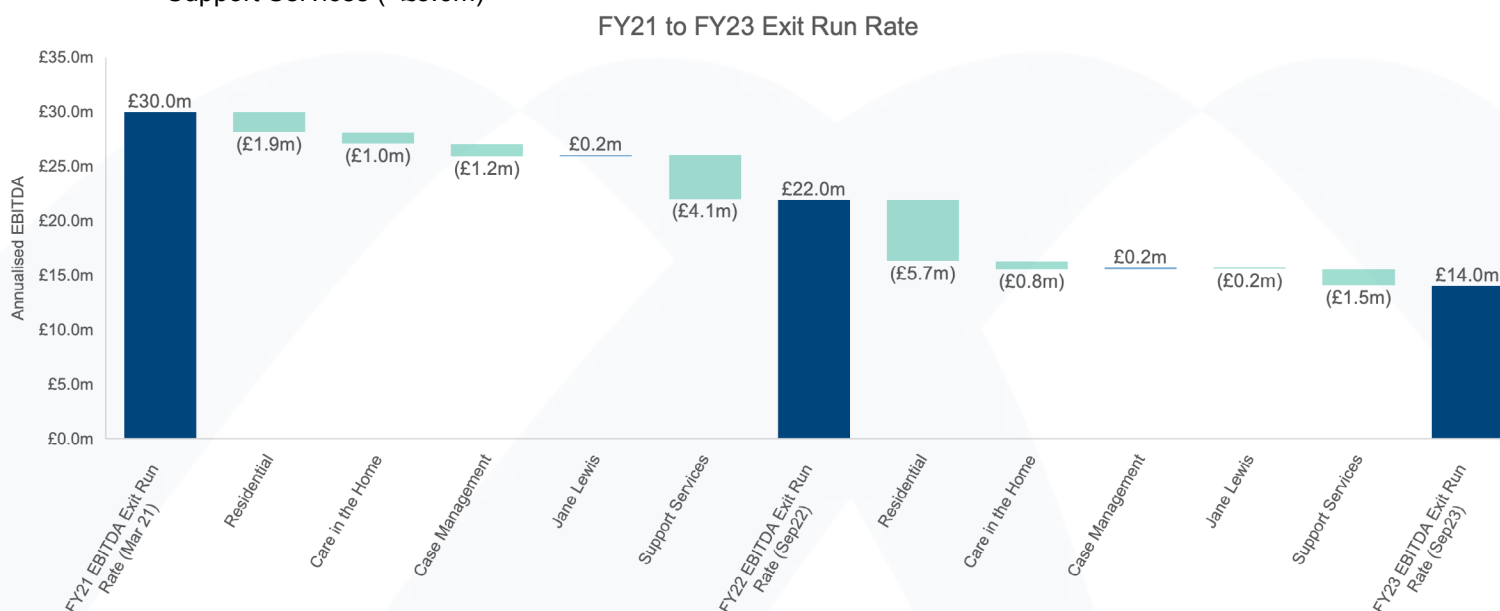
- ACG appointed a new CEO who previously successfully navigated Elysium to £775m exit at 12.4x.
- Part of a team who doubled Elysium EBITDA en route to exit from January 2019 to June 2023.
- Led extensive Management Information/digitalisation programme at the group over prior 4 years.
- Fully integrated £250m M&A into Elysium.



CURRENT APPRAISAL OF THE BUSINESS

Outturn EBITDA for the FY23 of £17m

- March 2021 to September 2023
 - Residential (-£7.6m)
 - Care in the Home (-£1.8m)
 - Case Management (-£1.0m)
 - Support Services (+£5.6m)



Where the business is trading

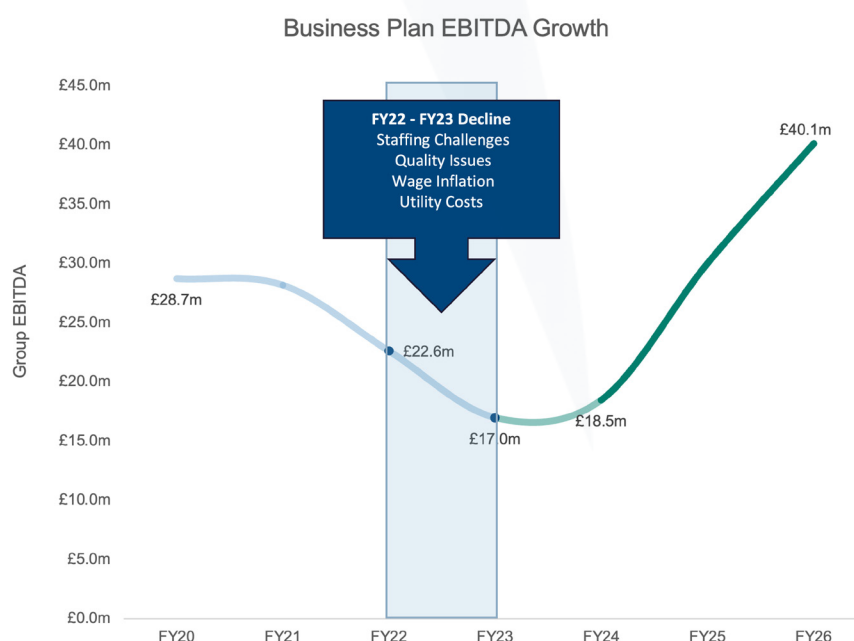
An adverse trading environment has resulted in a reduced ability to invest organically in ACG. As cash conversion in the business is compressed, there is limited capital to maintain services, invest in organic growth, and develop the strong digital platform which is required to mitigate the aforementioned external factors and hence, maintain operating margins. More specifically:

Occupancy and quality

- A decline in quality ratings from 82% to 74% Good/Outstanding impacting referrals and reputation:
 - Under investment in the ACG estate, as a result of the lack of free cash flow, has led to environmental factors impacting the quality of its services and thus, its occupancy rates. This is a short-term issue that is being addressed. A full real estate project is currently underway.
 - Limited real-time management information and operational bandwidth to oversee Service Improvement Plans or identify early warning signs.

Staffing

- Significant pressure on staffing costs, agency premium, and availability of staff.



RECOVERY PLAN



Executive summary

ACG must first re-establish a solid foundation by which to recover EBITDA and grow the business, this will be the main focus for financial year 23/24.

- Standardisation monitored and achieved by improved management information gathering.
- Focus on quality with a drive toward best in sector standards.
- Focus on Real Estate refurbishment.
- Investment in digital strategy to improve operational management of the business.
- Steady accelerated growth across organic divisions.
- Develop solid platform for future acquisitions.
- The leverage provider continues to support the business and its growth plan.

Cash flow forecast

Group Cash flow	Forecast Sep-23 FY23	Forecast Oct-23 FY24	Forecast Nov-23 FY24	Forecast Dec-23 FY24	Forecast Jan-24 FY24	Forecast Feb-24 FY24	Forecast Mar-24 FY24	Forecast Apr-24 FY24	Forecast May-24 FY24	Forecast Jun-24 FY24	Forecast Jul-24 FY24	Forecast Aug-24 FY24	Forecast Sep-24 FY24
EBITDA	760	859	946	825	1,586	1,344	1,759	1,503	1,766	1,782	2,165	1,944	1,998
Decrease / (Increase) in Debtors	(1,895)	(477)	(633)	556	(457)	(627)	(400)	(62)	(372)	(1,032)	(90)	720	493
Increase / (Decrease) in Creditors	(3,066)	(987)	(1,372)	(270)	(238)	(291)	478	(212)	271	(23)	(149)	(221)	(5)
Board & Investor costs	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)
Exceptionals	(100)	(1,454)	(580)	(100)	(167)	(167)	(167)	(167)	(593)	(167)	(167)	(167)	(167)
Operating Cashflow	(4,328)	(2,086)	(1,667)	984	698	232	1,644	1,036	1,045	533	1,732	2,249	2,292
Capex	(896)	(947)	(1,028)	(987)	(1,037)	(1,033)	(1,137)	(835)	(810)	(822)	(628)	(605)	(573)
Corporation Tax	0	(300)	0	(300)	(300)	0	0	(300)	0	(300)	0	0	(300)
Cashflow before Financing	(5,224)	(3,333)	(2,695)	(303)	(639)	(802)	507	(99)	235	(589)	1,104	1,644	1,418
Funding	0	10,000	5,000	0	4,500	0	0	0	0	0	0	0	0
Bank Loan Interest	0	0	(3,247)	(1,076)	(1,099)	(553)	(556)	(557)	(1,115)	(1,115)	(1,108)	(1,108)	(1,108)
Ground rent payment	(603)	0	0	(603)	0	0	(603)	0	0	(623)	0	0	(633)
Net Cashflow	(5,826)	6,667	(943)	(1,982)	2,762	(1,355)	(651)	(656)	(879)	(2,326)	(4)	535	(322)
Opening Cash	8,856	3,030	9,697	8,754	6,772	9,534	8,179	7,528	6,872	5,992	3,667	3,663	4,198
Closing Cash	3,030	9,697	8,754	6,772	9,534	8,179	7,528	6,872	5,992	3,667	3,663	4,198	3,875



RECOVERY PLAN

EBITDA Evolution

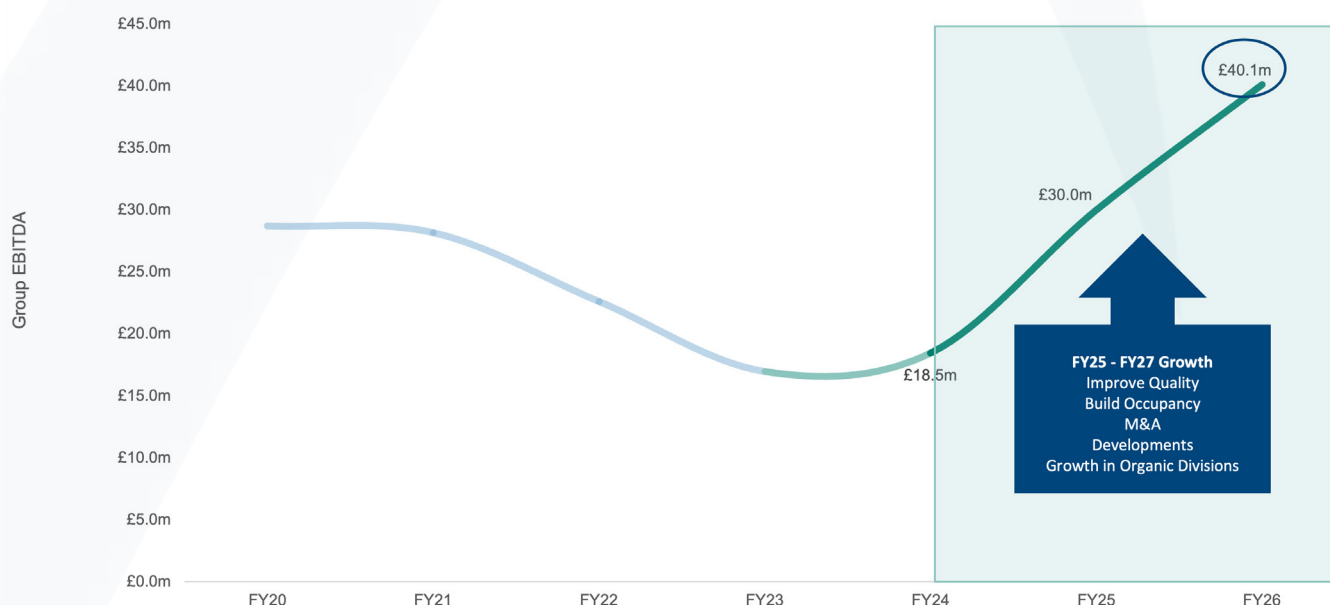
	FY23	FY24	FY25	FY26	CAGR
Residential	£24.4m	£29.7m	£34.1m	£36.1m	14%
Care in the Home	£3.8m	£4.5m	£6.1m	£7.7m	26%
Case Management	£4.9m	£5.9m	£8.8m	£11.8m	34%
Staffing	£0.8m	£1.7m	£3.1m	£3.8m	67%
EBITDAM	£33.9m	£41.7m	£52.1m	£59.3m	20%
Acquisitions			£3.1m	£6.3m	
Brownfield				£1.0m	
Greenfield				£0.2m	
EBITDAM	£33.9m	£41.7m	£55.2m	£66.7m	20%
Support Centre	(£16.9m)	(£23.3m)	(£25.2m)	(£26.7m)	16%
EBITDA	£17.0m	£18.5m	£30.0m	£40.1m*	33%

* PF EBITDA £41.2m adjusted for mature Brownfield and Greenfield

3 Year Business Plan: Value generation across four divisions leading to a successful exit.

- Significant investment in a fully integrated operational platform:
 - Implementation of digital platform.
 - Improvement in management information delivery.
 - Enable the leadership team to act in a timely manner and anticipate challenges.
 - Provide a solid platform for growth.
- Solid Residential division:
 - No new Requires Improvement quality ratings for Q2 FY24 and beyond.
 - Maintain 90%+ occupancy on established services.
- Demonstrable value-add through M&A and development:
 - Best-in-class Management Information, IT systems and processes enabling value accretive M&A and synergy extraction.

Business Plan EBITDA Growth





RECOVERY PLAN

Enablers for growth

In order to achieve this vision investment is required:

- Short-term Capex to bring estate up to required standard.
- 3 Year digital investment to enable growth.
- Fully integrate acquisitions to prove buy and build business model.
- Medium term re-investment of generated cashflow into Greenfield and Brownfield developments.

3 Year Vision: £40m EBITDA, c.30% CAGR from current position

- Fully integrated operational platform, underpinned by best-in-class digital landscape and Management Information.
- Industry leading quality ratings with no inadequate rated services.
- c.25% CAGR from organic divisions.
- Established vehicle for streamlined M&A integration and value generation.
- Well adopted proven approach for successful Greenfield and Brownfield Developments.

Maximising an exit

25% CAGR on organic divisions – sustainable continuous growth

- Care in the Home – Quality, Recruitment, Systems.
- Case Management – Recruitment, delivering on business development, integrating systems.
- Jane Lewis – Management, Branch expansion, Systems, Recruitment conversion.

Residential short-term

- Quality improvements: goal of 100% Good or Outstanding, best in sector quality.
- Driving occupancy to mid 90%.

Recruitment strategy to be finalised over Q1FY24 – Move to central recruitment for all four divisions.

Residential long-term

- Implementation of proven value accretive M&A model (full integration, synergy delivery).
- Development of Brownfield sites, proven delivery at 33% return on investment.
- Development of Greenfield sites, proven delivery at 25% return on investment.
- Developing a strong, motivated divisional management team to drive success.
- Continued growth of brand position in the market – goal to make ACG the first choice in care.

Despite macroeconomic headwinds, the long term view of the UK Health and Social Care sector remains bullish. The fundamentals remain compelling, and stakeholders are confident the erosion in EBITDA can be reversed. Slowing inflation, interest rates stabilising, and the prospect of a 'tax and spend' Labour Government could all complement the recovery plan management have put in place. We will keep investors informed of developments as they materialise. A webinar update is in the process of being produced and should be available by the end of the year, with the next official update provisionally scheduled for April 2024.



OLIVER HARRIS – CEO MCM (UK)

“Ultimately, ACG has been negatively impacted by adverse macroeconomic conditions. These conditions have made it difficult for the Fund’s board to authorise a sale as the best course of action for investors. Outlined here is a solid plan for ACG’s new management to recover the business and achieve an outcome which will positively impact all investors. Our vision for the business remains the same, with an outcome focussed on return to investors as key to our approach. My team and I remain at your disposal should you have any questions.”

The Montreux Healthcare Fund PLC

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