

HC-One Response to CICTAR Letter Dated 30th November 2021

Response Issued 3rd December 2021

HC-One is committed to delivering high-quality, kind care for our Residents and the communities we serve. Our owners share this commitment, and their financial support enables us to invest at scale into our Residents, Colleagues, and homes across the UK. Our owners have invested far more into the delivery of kind care than they have taken out of the organisation.

Below we have responded in full to each question in your most recent letter.

Why do you use the term “Asset Management Fees” as this is not a term used in any of the public filings of companies within the HC-One group that have been examined?

Can you provide a breakdown of the different types of dividends that are included in the £32m figure paid to owners over 5 years?

Does this include shareholder dividends prior to 2017, ongoing 9% Cumulative preference shares and equity dividends?

Can you confirm that “Asset Management Fees” are a component of these equity dividends?

Asset Management Fees are standard across many property owning companies and are therefore a standard term used within the investor community.

Asset Management Fees cover the services we receive from our owners, including the costs associated with managing the investment, our lending arrangements, and running our ownership Board.

The Asset Management Fees are paid as a company dividend transfer and will therefore appear on our accounts as a dividend. Whilst this is the most appropriate mechanism through which to make the payment, Asset Management Fees are distinct from shareholder dividends.

In the last five years – from 1st October 2016 to 31st October 2021 – we have paid total Asset Management Fees of £19.5m. This amounts to 0.6% of total turnover over that period.

In the last five years – from 1st October 2016 to 31st October 2021 – we have made total shareholder dividend payments of £12.5m. The last shareholder dividend payment was made in 2017.

As noted in our previous letter, we have never made a payment on the 9% preference shares.

In the last five years – from 1st October 2016 to 31st October 2021 – our owners have enabled us to invest £145m in capital expenditure, with a further £115m committed by 2022/23. This far exceeds the cumulative dividends and Asset

Management Fees they have received over the same period – which total £32m.

As such, taken together, in the past five years, our owners have made a net positive cash contribution of £113m, with a further £115m committed – taking their total net contribution by FY2022/23 to £228m.

Can you confirm that an Asset Management Fee was paid on 1 May 2020 and that payment of Asset Management Fees resumed in May 2021?

This is correct.

Based on information reported in the UK filings of FC Skyfall Holdco 3 Ltd, we calculate that the net operating profit for the period October 2016 through September 2020 (the 4 years of public reporting that are currently available) was £102.7m. The £32m figure represents 31% of net operating profit for this period. Can you confirm these figures? Would you recommend using other figures to make an accurate comparison of the £32m figure paid to owners of the company compared to the profits and/or losses from operations?

The combined £32m total paid to our owners over the last five years equates to 1% of total turnover, which we believe is a more accurate reflection of the value of these payments.

The payments should also be considered against the £145m capital expenditure that the owners have enabled over that same period. This has enabled us to upgrade and refurbish our homes which is vital in meeting the increasingly complex health needs of our local authority and NHS funded residents. This would simply not have been funded without their support.

While occupancy likely fluctuated due to the pandemic, the annual financial statements of FC Skyfall Holdco 3 Ltd for the period ending 30 September 2020 (most recent publicly available) report average occupancy of 85.6%, down from 90.0% in 2019. Is this correct for the HC-One Group? Can you provide information on current occupancy levels across the HC-One Group?

Our annual accounts report average group occupancy, rather than real time month-by-month occupancy.

During the pandemic, our occupancy rates fell to a low of 72.5% (February 2021) from a pre-pandemic level of 92%. For October 2021, our occupancy currently stands at 79%, reflecting the significant impact the pandemic has had on our homes.

Nevertheless, we are the only operator continuing to invest at scale in publicly funded care, with a £54.5m refurbishment programme underway, and a recently announced £17m investment in Colleague pay so that carers with two years' experience will receive the Real Living Wage.

Can you confirm how Formation Capital's previous majority ownership was reduced to the current level? Was part of Formation Capital's ownership purchased by Safanad or others? If so, what was the payment to Formation Capital? Did increased investment by Safanad or others dilute Formation Capital's ownership to 7%? Are you able to describe the change in ownership structure?

Formation Capital's ownership was diluted by both new equity and a detail buy down of their position.

Does Welltower have an equity interest or the option to convert to an equity interest in HC-One? Did the refinancing of debts with Welltower result in payments to Formation, Safanad, or other related parties in the form of capital and interest payments?

The refinancing agreement with Welltower was a consolidation of all our previous debt only, so that we now have one lender only. We were also able to reduce total debt by £66m.

As part of the refinancing agreement, Welltower also took a small equity position in HC-One.

Welltower has no option to convert debt into equity.

No Welltower proceeds were distributed to HC-One's equity holders.

As of 28 November 2021, according to Companies House records, Steve Fishman is listed as an active director of Skyfall Topco 2021 Ltd and was appointed on 8 July 2021 (along with Arnold Whitman of Formation Capital and others).

As previously stated, Mr Fishman is no longer a Director on the ownership Board of HC-One and is no longer associated with Formation Capital. An update has already been filed at Companies House.

We understand that Mr Fishman is no longer directly associated with Formation Capital. However, several UK filings in the HC-One Group continued to describe Mr Fishman as having an ongoing relationship with Formation Capital after the Formation Capital relationship had officially ceased.

A genuine human error was made in carrying over the biography for Mr Fishman. It should have been updated to reflect that Mr Fishman had Co-Founded, but later left, Formation Capital. This will be rectified in the next accounts, whilst also noting his resignation from the ownership Board of HC-One during this accounting year.

The SEC order does not prevent Mr Fishman from serving on a company Board, however as previously stated he is no longer a Director on the ownership Board of HC-One.

Is FC Skyfall SPV Limited UK tax resident? Are all other Cayman Islands entities in the HC-One ownership structure UK tax resident? If not, which ones are not UK tax resident and which ones are? Why?

FC Skyfall SPV Limited is Cayman incorporated entity but UK tax resident. FC Skyfall SPV Limited does not file financial statements in the UK because it is not required to as a matter of UK company law as it is an investment holding company for the shareholders which itself has no UK assets and no UK business.

Steps have been taken to bring the vast majority of Cayman entities in the structure to be UK tax resident and the very few that remain Cayman tax resident are entities that do not themselves own UK properties or have any UK operating business and so do not have any UK tax liabilities as a matter of UK tax law. They serve as the entities that contribute the capital investments of our various shareholders into the operating business.

Only dividends, the extent of which have been highlighted previously, are distributed up through these entities and these are subject to international tax obligations in the hands of our investors.

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