

Spire Healthcare reports its results for the six months ended 30 June 2023

London, UK, 14 September 2023, Spire Healthcare Group plc (LSE: SPI) ('Spire Healthcare', 'the Group' or 'the Company'), a leading independent hospital group in the UK, today announces its interim results for the six months ended 30 June 2023 ('the period' or 'H1 23').

Strong H1 performance in line with full year expectations, with momentum continuing

Summary Group results for the six months ended 30 June 2023

	Six months ended 30 June (Unaudited)		
(£ million)	2023	2022	Variance
Revenue	676.5	597.9	13.1%
Adjusted operating profit (Adjusted EBIT)	67.8	54.6	24.2%
Adjusting items	(2.0)	(5.6)	NM ⁽¹⁾
Operating profit (EBIT)	65.8	49.0	34.3%
Profit before taxation	20.3	3.0	NM
Profit / (loss) after taxation	12.7	(0.6)	NM
Basic earnings / (loss) per share, pence	3.1	(0.1)	NM
Adjusted basic earnings per share, pence ⁽²⁾	3.4	1.1	NM
Adjusted EBITDA ⁽³⁾	117.9	105.8	11.4%
Adjusted FCF ⁽⁴⁾	24.0	23.7	NM
Net bank debt ⁽⁵⁾	248.5	227.8	9.1%
Net bank debt / EBITDA covenant ratio	2.1	2.2	(0.1)

1. Not meaningful

2. Adjusted basic earnings / (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'. For EBITDA for covenant purposes, refer to note 16.

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.

6. Return in 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.

7. Capital investment includes capital spend on property, plant and equipment and right of use assets. Refer to note 14.

Financial and operating highlights

Strong revenue and earnings performance

- Revenue up 13.1% vs H1 22 to £676.5m, driven by continued strong demand
- Private revenue up by 10.4% vs H1 22 with strong growth in PMI and further growth in self-pay
- Continued support for the NHS, especially on longest waiting patients and orthopaedics, with NHS revenue up 17.1%
- Average revenue per case (ARPC) on a weighted basis up 6.6% to £3,337; admissions up 7.4% vs H1 22 to 141,347
- Adjusted EBIT up 24.2% vs H1 22 to £67.8m and Adjusted EBITDA up 11.4% vs H1 22 to £117.9m
- Profit before taxation of £20.3m (H1 22: £3.0m)
- Profit after taxation of £12.7m (H1 22: loss of £0.6m)
- Strong H1 23 performance supported by significantly reduced impact of COVID-19 relative to comparative prior year period (particularly affected in Jan-Apr 2022)
- Net bank debt / EBITDA covenant ratio of 2.1x at 30 June 2023 (2.2x at the end of FY22 and 2.2x at 30 June 2022)

Continued development of the business in line with strategy

- 98% of inspected hospitals and clinics currently rated 'Good' or 'Outstanding' by the CQC or equivalent in Scotland and Wales (end FY22: 98%)
- Further good progress in the delivery of efficiency programmes; on track to deliver at least £15m cost savings in 2023
- £36.1m capex investment in facilities and equipment (H1 22: £38.8m);
- Integration of The Doctors Clinic Group (DCG) into the business in line with expectations
- 41% like-for-like increase in the number of GP appointments across the in-hospital and recently acquired DCG business
- 5.5% colleague salary increases from 1 September 2023, with 3% rise for colleagues eligible for a bonus; lowest paid colleagues move in-line with the Real Living Wage

Current trading and outlook

Following the strong financial performance recorded in the first six months, the second half of the year to date has started in line with our expectations. The Group has continued to deliver operational and financial progress in line with our plans, with sustained growth in revenue, earnings and EBIT margin.

We are confident of achieving our guidance provided at the time of our FY22 results announcement in March 2023: 'Overall in 2023, we expect to make further good progress and continued delivery of the Group's strategy and in particular anticipate continued momentum in top-line growth, margin improvement and ROCE improvement.'

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

“Our strategy is working, as this strong set of results demonstrates, with top-line momentum and strong profit growth. Our investments in a high quality service, partnerships with PMI providers and the NHS, and a compelling self-pay proposition, meant we treated a record number of patients in the first half of this year. Our efficiency programmes are on track, and we continue to manage mix to focus on treatment areas most appropriate for our acute hospital environment. This is enhancing our margin.

“In line with our strategy to develop adjacent services, we acquired The Doctors Clinic Group last year and the business is performing well. Demand for easily accessible private GP services continues to soar and our occupational health services are a key platform for employers seeking to retain staff and support their health needs.

“UK healthcare is entering an era of renewed choice as demand for healthcare diagnosis and treatment remains strong. By continuing to invest in innovative services, expanded facilities, technology, and our brilliant workforce, Spire is ideally positioned to meet this demand.”

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 30 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 700 corporate clients.

Working in partnership with over 8,760 experienced consultants, Spire Healthcare delivered tailored, personalised care to approximately 926,500 inpatients, outpatients and day-case patients in 2022, and is the leading private provider, by volume, of knee and hip operations in the United Kingdom. The Group's well-located and scalable hospitals have delivered successful and award-winning clinical outcomes, positioning the Group well with patients, consultants, the NHS, GPs and Private Medical Insurance (PMI) providers. 98% of Spire Healthcare's inspected hospitals and clinics are rated 'Good', 'Outstanding' or the equivalent by health inspectors in England, Scotland and Wales.

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 9.00 am. Please register in advance for the live webcast of the meeting through the following link:

https://spirehealthcare.zoom.us/webinar/register/WN_OPdXNsztQf-dpAJW5qblFw

The webcast will be available for replay following the presentation through the Company's investor website:

<https://investors.spirehealthcare.com/home/>

Operating review

Overview

Spire Healthcare delivered a strong financial and operational performance in H1 23, while maintaining high standards of patient safety and providing the highest quality care on a daily basis. Increased revenue, volume and average revenue per case (ARPC), supported by ongoing focus on cost management, resulted in strong profit growth in H1. Profit before tax for the first half of the year was £20.3m, up from £3.0m in H1 22. The business is on track to meet the medium-term targets as set out at the Group's capital markets event on 29 June 2022.

Revenue and earnings for the first six months were materially ahead of the prior year period. Revenue in H1 23 was up 13.1% to £676.5m (H1 22: £597.9m), driven by strong demand. Overall activity rose in the period compared to prior year, with admissions up by 7.4% to 141,347.

Performance in the period benefited from significantly lower COVID-19 cost impact compared to H1 22. The January - April 2022 period was particularly impacted by COVID-19 and resultant costs.

The Group managed the external environment well in the period. Against a backdrop of high UK inflation and the well-documented skilled healthcare staff challenges in the UK, Spire was able to resource its current growth efficiently, and grow profits, despite cost input inflation, through pricing, revenue growth and savings programmes.

Further steady progress was made during the first half of the year to implement our strategy to grow adjacencies. This included our investment in new clinics and the ongoing integration of The Doctors Clinic Group (DCG), a provider of occupational health and GP services, which we acquired towards the end of last year. DCG is performing in line with management's expectations.

Driving hospital performance

Running 39 hospitals is the core of Spire Healthcare's business. Performance during the first half of the year was strong, with hospital revenue driven by significant demand. Admissions were 7.4% ahead of those in H1 22 and 7.8% ahead of H2 22, an indication of ongoing high demand for the Group's healthcare services.

Overall admissions and revenue were higher than in H1 22, as expected, with exceptionally strong growth in PMI (private medical insurance) and NHS payor groups, with SP (self-pay) demand maintaining its high levels.

Overall, private admissions grew by 5.4% (vs H1 22: up 18.6%) during the six-month period to the end of June 2023 compared to prior year, with private revenue ahead by 10.4% (vs H1 22: up 21.6%).

PMI revenue grew by 15.6% vs H1 22 to £306.6m, reflecting an increase in referrals and the reported marked growth of the insurance market, which we have seen continue into H2 2023. Volumes of PMI patients, including admissions and outpatient procedures, were up 12.5% vs H1 22.

SP revenue was up 2.5% to £178.4m with volumes maintained at levels significantly higher than pre-COVID. In line with our strategy to increase the acuity of our services, some high volume but lower value work has been substituted by higher complexity, high value work.

NHS revenue grew by 17.1% to £170.5m in the first six months of this year compared to last year, with increasing referrals through the electronic referral system (eRS). Overall NHS volumes, including admissions and outpatient procedures, were up 6.1% YOY with admissions up 12.4%. Orthopaedic volumes were up 17.8% YOY and now comprise c. 50% of all Spire NHS referrals. NHS tariff for 2023-24 will rise to 4.1%, effective from 1 April 2023, to cover the cost of the nurses' and doctors' pay awards.

The private proportion of total revenue during H1 23 was 72% (H1 22: 73%). This is in line with our target that private revenue as a proportion of total revenue should be within the range of 70-80%.

The average revenue per case (ARPC) rose by 6.6% on a weighted basis to £3,337. In SP, we have control over pricing and actively manage it using our digitised pricing system. Our contracts with PMI providers generally allow for price adjustments in Q2, with reference to rates of inflation in the prior year. Compared to H1 22, PMI ARPC was up 5.2% to £2,870, SP up 8.5% to £4,297 and NHS up 6.7% to £3,298. Pricing adjustments in PMI and SP will continue to benefit overall private revenue in H2, at higher rates than H1.

We are pleased to have developed a new advertising campaign which has just been launched 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".

In May 2023, Spire Healthcare Limited acquired an additional 25% interest in the Montefiore Hospital in consideration of the release and discharge of outstanding liabilities. The Group now owns 75% of this entity.

Expanding our proposition

While running great hospitals remains central to Spire Healthcare, we are 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. Further steady progress to expand the Group's healthcare proposition was made in the first six months of the year as the Group worked towards becoming an integrated healthcare provider, with services in primary care, diagnosis, occupational health and long-term condition management.

The ongoing integration of The Doctors Clinic Group (DCG), which was acquired last December, is progressing well. We are restructuring the business into two units, Occupational Health and Primary Care, with further integration into Spire Healthcare teams for some roles.

Our Spire GP primary care services have experienced strong growth in recent years with patients attracted by a high quality service offering efficient access to a GP near to where they live. Patients also value the longer appointment times that enable a fuller examination and discussion of their medical needs with the GP. We saw increased demand for our private GP services during H1 23. The total number of GP appointments rose by 41% and revenue by 45% like for like in H1 23 compared to the prior year period across DCG and Spire Hospital GP services. The number of referrals from Spire GPs to appointments with consultants in our hospitals was up by 28% for H1 23 compared to the prior year period. Work continues to build greater referral activity from Doctors Clinic Group GPs as part of the overall integration plan.

As well as expanding Spire Healthcare's GP service offering, the Group plans to target 10 new medical clinics to meet the growing healthcare needs in our communities. We remain on target to open the first of our clinics at Abergele, North Wales, during H2 23 and are planning to open a second clinic at Harrogate before the end of the year.

Spire Healthcare's occupational health (OH) business continues to develop in line with the Group's plan. Our focus during the period has been on integrating the two OH businesses within DCG and rebranding. Revenue for our two occupational health businesses, Soma and Maitland, grew 41% on H1 22, when they were under the previous ownership.

We welcome the consultation launched on 20 July 2023 by the UK Government's Department for Work and Pensions seeking views on proposals aimed at increasing employer use of OH services along with a joint consultation issued on the same day by HM Treasury and HM Revenue & Customs on the role of tax incentives in boosting OH provision by employers. These initiatives provide a clear indication of the government's support of OH services as a catalyst for getting people back to work and for promoting health and wellbeing in the workforce.

We continue to make progress in development long-term condition management services. Following the launch in December 2022 of a pilot for a subscription-based, nurse-led Type 2 diabetes care service at Spire Leicester, we are working to extend the pilot to Spire Harpenden and our London GP clinics. Those patients already subscribed have provided very positive feedback on the support and personalised care provided.

Successfully navigating in an inflationary environment

Adjusted EBIT rose by 24.2% to £67.8m during H1 23 compared to the H1 22 and Adjusted EBITDA by 11.4% to £117.9m. This resulted in an Adjusted EBIT margin of 10.0%, up from 9.1% in H1 22 and 8.5% in H2 22. Adjusted EBITDA margin for the first six months of 2023 was 17.4%, down from 17.7% recorded in the first half of last year, but up materially from 16.3% in H2 22; margin growth in H1 23 was ahead of expectations.

Profit before tax for the period was £20.3m, up significantly on the £3.0m recorded in H1 22.

The profit improvements were driven by operational leverage provided by revenue growth – up 13.1% vs H1 22 for the six-month period – and pricing increases across SP, PMI and the NHS. Margin improvement also benefited from progress made in our ongoing efficiency programme which is targeting at least £15m of cost saving in 2023. Key cost-saving initiatives include refinement of best practice establishment models for hospital operations, the reorganisation of hospitals into hubs, sharing of resources and procurement savings. We continue to benefit from energy commodity prices fixed at 2021 pricing until Q3 2024.

Wage rate pressure is an ongoing consideration for Spire Healthcare and UK healthcare more broadly. However, our support and investment in our workforce (below) are leading to improving staff retention and good engagement, with reducing use of agency per admission as a result.

Overall, we believe that the benefits secured from the above actions, combined with our strategic focus on securing more complex work and our ability to adjust SP pricing and PMI pricing contractual arrangements, provide adequate self-help levers to enable the Group to successfully navigate through the ongoing inflationary environment. This will remain a key focus of the Group, as is improving our ROCE which was up at 6.9% on an annual basis, from 5.4% prior year.

Good cash generation enabling ongoing capex investment and further reduction in leverage ratio

The Group has continued to be cash generative and further reduced overall debt levels during the period. The cash inflow from operating activities was £96.6m (H1 22: £91.5m). After adjusting for cash from Adjusting Items, the Adjusted operating cash flows were £99.5m, which constitute a cash conversion rate from £117.9m Adjusted EBITDA of 84.4% (H1 22: 90.5% conversion of £105.8m Adjusted EBITDA).

Capital investment in the first half of 2023 was £36.1m and in line with our plan for this period, with a full-year target range of 6-7% of revenue. Capital investment during the period included the funding associated with the completion of a new outpatient and diagnostic centre at Spire Yale and a new ophthalmology site at Spire Cambridge. It also included investment in a new MRI unit at Spire Yale plus a mobile MRI, and CT scanners at Spire Cambridge Lea, Spire Gatwick Park and Spire Hartwood, the refurbishment of the Bristol pathology lab as well as other medical equipment.

Net bank debt at 30 June 2023 was £248.5m (vs £250.1m at 31 December 2022), with a cash balance of £75.7m (vs £74.2m at 31 December 2022). During Q1 22, we paid down bank debt by £100m as part of a successful re-financing of the Group's bank facilities. We also extended the scope of the Group's interest rate hedge in July 2022, with the result that 75% of the risk from increasing interest rates is now mitigated until April 2024, dropping back to 50% thereafter for the rest of the term. During H1 23, the Group exercised the option to extend the bank facility by a further year to February 2027.

The Group's leverage ratio continued to reduce, resulting in a net debt / EBITDA covenant ratio of 2.1x at 30 June 2023 (from 2.2x at the end of FY22).

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. 98% of our inspected hospitals and clinics are currently rated 'Good' or 'Outstanding' by the CQC or the equivalent in Scotland and Wales. We are awaiting re-inspection of Spire Alexandra, our one remaining site which has a 'Requires Improvement' rating, which has not been inspected since 2016/17, and look forward to demonstrating the improvements made since then. 93% of our patients rate our care as 'Outstanding'.

We are implementing the new NHS England Patient Safety Incident Response Framework (PSIRF). PSIRF promotes a new, more proportionate approach to responding to patient safety incidents within a wider system of improvement, with compassionate engagement and involvement of those affected by patient safety incidents. It builds on our open and learning culture.

Like everyone working in healthcare, we have reflected on the terrible crimes of Lucy Letby, committed at an NHS Trust. It has reinforced the importance of our sector-leading freedom to speak up culture, and in the past couple of weeks, we have re-emphasised to our colleagues and consultant partners that we encourage them to speak up, that they will be listened to, and supported.

Investing in our workforce

As a healthcare service provider, we recognise and value the hard work and dedication of all our colleagues. Given the well-documented shortage of skilled healthcare staff in the UK and internationally, investing in our workforce is a critical part of the Group's strategy. We recognise our vital position in addressing this shortage of clinical staff and therefore endeavour to ensure that all our colleagues are treated well and properly rewarded.

We announced this year's annual salary review on 25 May, to give colleagues clarity well in advance of the increases taking effect in September. Most permanent colleagues have been awarded a 5.5% salary increase, with a 3% salary increase for colleagues who are eligible for a bonus. The announcement has received positive feedback from colleagues. We have also continued to pay all our colleagues at least the Real Living Wage.

The development of our workforce is critical for us to maintain the high standards of quality and care delivery that we expect for our patients and pride ourselves on. It also is imperative that we provide professional development to attract and retain the very best people for our hospitals. We will soon be welcoming another 25 nurse apprentices onto our sector-leading nurse apprenticeship scheme. We already have around 550 apprentices in all, representing some 5% of the workforce. We are excited to be launching the Driving Clinical Excellence in Practice Programme for nursing colleagues over the next few months. The programme is a bespoke educational initiative that includes a comprehensive framework of necessary competencies and skills that are aligned to our Spire values, quality objectives and priorities and a study day that encourages participants to engage with peers to foster a deeper sense of community and to explore the values and behaviour of a Spire nurse. It will encourage reflective practice and professional conversations amongst our valued nurses to ensure patient care delivery remains high. It will also support nurse revalidation, promote better patient outcomes, patient experience and promote better use of resources.

We brought recruitment in-house during H1 2023, which is already leading to improved filling of vacancies, and we are very encouraged that the combined investments in our workforce are leading to a material reduction in colleague leaver rates, to the lower levels we sustained before the pandemic.

Championing sustainability

In 2022, we outlined the Group's sustainability strategy, and we provided further detail on our sustainability ambitions, setting out specific targets across Environment, Social and Governance (ESG) in our 2022 annual report. Many of our sustainability initiatives have been operating for some time. During H1 23, we made further progress towards our ambition of becoming an ESG leader in our industry, as we continued to focus our ESG work on areas of the business likely to have the greatest impact on the long-term sustainability of the business. Our journey towards achieving net zero carbon status by 2030 is going well, with investment during the period in the removal of piped nitrous oxide systems, further installations of LED lighting technology, increasing recycling and generating carbon reduction through effective management of our waste and the optimisation of our building management systems.

Further details of progress made across the Group's various ESG/sustainability initiatives will be reported on at the year end.

Dividend

We anticipate recommending the payment of a final dividend for the year ending 31 December 2023 in line with the Group's dividend policy.

Board changes

We welcomed Debbie White and Natalie Ceeney to the Board as independent non-executive directors during the period. Debbie White was appointed on 1 February 2023 and Natalie Ceeney joined us from 1 May 2023. 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

Six months ended 30 June (Unaudited)

(£ million)	2023			2022		
	Total before Adjusting items	Adjusting items (note 10)	Total	Total before adjusting items	Adjusting items (note 10)	Total
Revenue	676.5	–	676.5	597.9	–	597.9
Cost of sales	(362.3)	–	(362.3)	(328.4)	–	(328.4)
Gross profit	314.2	–	314.2	269.5	–	269.5
Other operating costs	(247.5)	(2.0)	(249.5)	(216.1)	(5.6)	(221.7)
Other income	1.1	–	1.1	1.2	–	1.2
Operating profit (EBIT)	67.8	(2.0)	65.8	54.6	(5.6)	49.0
Finance costs	(45.5)	–	(45.5)	(46.0)	–	(46.0)
Profit before taxation	22.3	(2.0)	20.3	8.6	(5.6)	3.0
Taxation	(8.1)	0.5	(7.6)	(4.4)	0.8	(3.6)
Profit / (loss) for the period	14.2	(1.5)	12.7	4.2	(4.8)	(0.6)
Adjusted EBITDA ⁽¹⁾			117.9			105.8
Basic earnings/ (loss) per share, pence			3.1			(0.1)
Adjusted FCF ⁽²⁾			24.0			23.7
Net cash from operating activities			96.6			91.5
Net bank debt ⁽³⁾			248.5			227.8

1 Adjusted EBITDA is calculated as operating profit, adjusted to add back depreciation, and adjusting items, referred to hereafter as 'Adjusted EBITDA'. See page 10 for further information. For EBITDA for covenant purposes, refer to note 16.

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 plant, property and equipment.

3 Net bank debt defined as bank borrowings less cash and cash equivalents.

Revenue

Group revenues increased by 13.1% to £676.5m (2022: £597.9m). The increase in revenue is mainly driven by the strong performance of our private business and in particular the recovery by PMI patients, which increased by 15.6%. Total NHS revenue increased by 17.1% to £170.5m (2022: £145.6). Revenue of £6.7m included in other relates to revenue generated by the Doctors Clinic Group which was acquired in December 2022.

Revenue by location and payor

Six months ended 30 June (Unaudited)			
(£ million)	2023	2022	Variance %
Total revenue	676.5	597.9	13.1%
Of which:			
Inpatient	272.7	246.8	10.5%
Day case	199.0	170.0	17.1%
Out-patient	182.6	166.4	9.7%
NHS – COVID-19	1.2	1.7	NM ⁽¹⁾
Other	21.0	13.0	NM ⁽¹⁾
Total revenue	676.5	597.9	13.1%
Of which:			
PMI	306.6	265.2	15.6%
Self-pay	178.4	174.1	2.5%
Total Private	485.0	439.3	10.4%
Total NHS	170.5	145.6	17.1%
Other	21.0	13.0	NM ⁽¹⁾
Total revenue	676.5	597.9	13.1%

1 Not meaningful

Cost of sales and gross profit

Gross margin for the first six months of 2023 is 46.4% compared to 2022 levels of 45.1%. Cost of sales increased in the period by £33.9m, or 10.3% to £362.3m (2022: £328.4m) on revenues that increased by 13.1%. The margin improvement was driven by operational leverage provided by revenue growth, pricing increases and cost savings from our ongoing efficiency program.

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

	Six months ended 30 June (Unaudited)			
	2023		2022	
	£m	% of revenue	£m	% of revenue
Clinical staff	144.9	21.4%	135.4	22.6%
Direct costs	157.5	23.3%	140.8	23.6%
Medical fees	59.9	8.9%	52.2	8.7%
Cost of sales	362.3	53.6%	328.4	54.9%
Gross profit	314.2	46.4%	269.5	45.1%

Other operating costs

Excluding Adjusting items other operating costs for the six months ended 30 June 2023 increased by £31.4m or 14.5% versus H1 22 to £247.5m. This increase is mainly driven by annual salary increases and increased IT costs related to the Groups digital initiatives. Adjusting Items included in operating costs decreased by £3.6m versus H1 22 and relates mainly to ongoing business reorganisation and restructuring costs.

Operating margin for the six months ended 30 June 2023 is 9.7% compared to 8.2% at H1 2022. Excluding adjusting items, operating margin is 10.0%, up from 9.1% at H1 2022.

Adjusted EBITDA

Adjusted EBITDA for the Group has increased by 11.4% in the period from £105.8m to £117.9m for H1 2023. The increase primarily reflects increased PMI and NHS revenue, and efficiency gains in the cost base.

Share-based payments

During the period, grants were made to Executive Directors and members of the executive management team under the Company's Long Term Incentive Plan. For the six months ended 30 June 2023, the charge to the income statement is £1.5m (H1 2022: £1.3m), or £1.7m inclusive of National Insurance (H1 2022: £1.5m).

Adjusting Items

(£ million)	Six months ended 30 June (Unaudited)	
	2023	2022
Business reorganisation and restructuring	1.6	3.3
Asset acquisitions, disposals, impairment and aborted project costs	0.4	1.9
Remediation of regulatory compliance or malpractice	-	0.3
Hospital set up and closure costs	-	0.1
Total costs	2.0	5.6
Income tax credit on Adjusting Items	(0.5)	(0.8)
Total post-tax Adjusting Items	1.5	4.8

Adjusting Items comprise those matters where the Directors believe the financial effect should be adjusted for due to their nature or amount, in order to provide a more comparable measure of the Group's underlying performance.

During H2 2021, 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. As a result of this initiative, costs of £1.6m have been incurred in the period. This initiative will be implemented over several phases and to date costs of £7.3m have been incurred. The initial phase of the initiative was completed in 2022, the estimated time frame to overall completion being the end of 2024.

Asset acquisitions, disposals, impairment and aborted project costs mainly comprise costs in respect of Doctors Clinic Group as costs are incurred to integrate the Group into the Spire Group. 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.

Finance costs

Finance costs have decreased by £0.5m to £45.5m (H1 2022: £46.0m). Mainly due to the accelerated amortised fees in the prior period as a result of the refinancing of the senior finance facility offset by an increase in interest on bank borrowings due to rising interest rates in the period.

Taxation

The taxation charge for the six months ended 30 June 2023 is £7.6m (H1 2022: £3.6m). This consists of a £1.4m (H1 2022: £nil) release of a current tax provision and a charge of £9.0m (H1 2022: £0.5m) for the current year movement on deferred tax and £nil (H1 2022: £3.1m) adjustment in respect of previous periods to deferred tax. The charge of £7.6m is a non-cash movement and is caused by timing differences mainly due to the difference in the tax base versus the accounting base for assets.

Profit after taxation

The profit after taxation for the six months ended 30 June 2023 was £12.7m (H1 2022: loss £0.6m)

Non-GAAP financial measures

We have provided below financial information that has not been prepared in accordance with IFRS. We use these non-GAAP 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 non-GAAP 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 non-GAAP financial measures to investors.

Non-GAAP 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 non-GAAP financial measures to their most directly comparable IFRS financial measures provided in the financial statements table in the press release.

The following information includes references to adjusted financial information. This has been produced for illustrative purposes and does not represent the Group's actual statutory earnings.

Adjusted EBITDA

	Six months ended 30 June (Unaudited)	
(£ million)	2023	2022
Operating profit	65.8	49.0
Remove effects of:		
Adjusting items	2.0	5.6
Depreciation	50.1	51.2
Adjusted EBITDA	117.9	105.8

Adjusted EBIT

	Six months ended 30 June (Unaudited)	
(£ million)	2023	2022
Operating profit	65.8	49.0
Remove effects of:		
Adjusting items	2.0	5.6
Adjusted EBIT	67.8	54.6

Adjusted profit after tax and adjusted earnings per share

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

	Six months ended 30 June (Unaudited)	
(£ million)	2023	2022
Profit before tax	20.3	3.0
Remove effects of:		
Adjusting items	2.0	5.6
Adjusted profit before tax	22.3	8.6
Taxation	(8.1)	(4.4)
Adjusted profit after tax	14.2	4.2
Adjusted profit after tax attributable to owners of the Parent	13.9	4.3
Weighted average number of ordinary shares in issue (No.)	403,771,475	401,391,262
Adjusted basic earnings per share (pence)	3.4	1.1

Adjusted Free Cash flow

	Six months ended 30 June (Unaudited)	
(£m)	2023	2022
Adjusted EBITDA	117.9	105.8
Less: Rental payments	(47.4)	(41.1)
Less: Cash flow for the purchase of property, plant and equipment	(31.0)	(44.1)
Less: Working capital movement	(19.2)	(10.5)
Add: Adjustments for non-recurring items	3.7	13.6
Adjusted Free Cash Flow (FCF)	24.0	23.7

Cash flow analysis for the period

(£ million)	Six months ended 30 June (Unaudited)	
	2023	2022
Opening cash balance	74.2	202.6
Adjusted operating cash flows	99.5	95.8
Adjusting items	(2.9)	(4.3)
Income tax received	—	—
Operating cash flows	96.6	91.5
Net cash in investing activities	(33.3)	(44.0)
Net cash in financing activities	(61.8)	(154.3)
Closing cash balance	75.7	95.8

Operating cash flows before adjusting items

The cash inflow from operating activities was £96.6m. After adjusting for cash from Adjusting Items, the Adjusted operating cash flows were £99.5m, which constitutes a cash conversion rate from £117.9m Adjusted EBITDA of 84.4% (H1 2022: 90.5% conversion of £105.8m Adjusted EBITDA). The net cash outflow from movements in working capital in the period was £19.2m (H1 2022: £10.5m outflow).

Investing and financing cash flows

Net cash used in investing activities for the period was £33.3m (H1 2022: £44.0m). Cash outflow for the purchase of Plant, Property and Equipment in the period totalled £31.0m (H1 2022: £44.1m), which included investment in MRI and CT's, refurbishment of the Bristol pathology lab and other building-related works.

Net cash used in financing activities for the period was £61.8m (H1 2022: £154.3m). Cash outflows include £3.1m for the buyback of shares to settle share awards, a final dividend payment of £2.0m, lease and bank interest paid of £45.6m (H1 2022: £47.1m) and £11.1m (H1 2022: £7.3m) of lease principal payments.

Borrowings

At 30 June 2023, the Group has bank borrowings of £324.2m (December 2022: £324.3m), drawn under facilities which are due to mature in February 2027.

(£ million)	As at	
	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Cash	75.7	74.2
Bank borrowings	324.2	324.3
Bank borrowings less cash and cash equivalents	248.5	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 30 June 2023 the leverage measure stood at 2.1x and interest cover of 7.4x

As at 30 June 2023, lease liabilities were £864.6m (December 2022: £866.5m). Refer to note 17 for more detail.

Dividend

The Board will not be proposing an interim dividend. A final dividend for the year ended 31 December 2022 of 0.5 pence was declared and £2m was paid to shareholders on 21 June 2023.

Related party transactions

Other than as disclosed in Note 22 there were no significant related party transactions during the period under review.

Principal Risks

In our 2022 Annual Report and Accounts we set out our principal risks. They remain materially unchanged since then, details of which can be found on pages 66 to 76 of the 2022 Annual Report and Accounts. One principal risk reported in 2022 is no longer considered a principal risk by the Board, that being the risk from a further outbreak of Covid-19. The Board has also renamed its macroeconomic principal risk to “Inflation and Wage inflation” to highlight the specific economic risk to the business. The risks below are the principal risks and uncertainties remaining for the last six months of the year. Below, we set out our principal risks with their material mitigations.

Workforce	We seek to retain staff 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% increase for most staff, and extra to bring all staff up to the living wage. • Offering greater flexibility in employee's roles, including encouraging them to move to our bank if they are to leaving permanent employment. • Responding to key employee metrics, for example providing a network of trainer mental health first aiders. • Continuous investment in our equipment, facilities, and services to retain high-quality clinicians. We seek to recruit staff through: • A centralised recruitment processes • An overseas recruitment capability to secure skilled healthcare workers from outside the EU where necessary. • Offering apprenticeship programmes to support the development of clinical and non-clinical teams across the business. • Building of local bank staff pools The Group manages immediate staff shortages using agency and bank workers.
Inflation and wage inflation	The COVID-19 pandemic has left high levels of pent-up demand for our services that is expected to remain for some years. The ability for patients to access private care does not appear to be constrained financially at this time. We understand that private medical insurance policy renewals and sales remain stable, and we have seen strong growth in 2022-23 while waiting lists remain at record levels. 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 new pricing engine. Our conversion rate from Out-patient appointment to In-patient procedure remains stable. Procurement maintains a constant review of pricing and seeks opportunities to mitigate inflationary increases. In addition, 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, supported by an efficient cost base. We have responded to wage inflation by announcing to our staff early in 2023 that the 2023 general pay rise will be 5% for most staff, and more for those near minimum wage.
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 on 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 e.g.,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 October 2024.
Competitor challenge	We maintain a watching brief on new and existing competitor activity and retains the ability to react quickly to changes in patient and market demand. We consider that a partial mitigation of the impact of competitor activity is ensured by providing patients with high-quality clinical care and by maintaining good working relationships with GP's and consultants. We continue to invest in the brand and deliver an effective acquisition capability both direct and via our partners in order to protect our market position. We have also strengthened our pricing and tendering capabilities.

	Despite the COVID-19 pandemic, we have maintained investment into the estate and clinical equipment to differentiate our proposition. We monitor the market for opportunities, should they arise, to acquire or open facilities in specific geographies creating incremental volume.
Information governance & security	We have a governance structure, with Board oversight, that monitors the risk and mitigations for Data Governance and Cyber Security. To support the governance structure, we have a range of policies and practices, and mandatory staff training covering Data Governance 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
Brand reputation	Our primary mitigations against damage to our brand reputation is through the good management of its principal risks, in particular: • Patient safety and clinical quality; • Cyber security and data protection; and, • 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.
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 eight weeks supply, medicines and prostheses are 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. Because of the Group's Brexit planning, the Group does 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.
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. Through the COVID-19 pandemic, we have strengthened our relationships with the government via DHSC, NHS England and NHS Improvement. Meanwhile hospitals have also strengthened their relationships with the local NHS commissioners. The Integrated Care Systems (ICS's) 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 ICS's. Our CEO, Justin Ash, was a member of the HM Government's working party on reducing waiting lists.
Pandemic from new pathogen	We: • maintain awareness of early warnings of potential pandemics from organisations like the WHO, Dept of Health, NHSE. • have a developed Emergency Response Plan in line with the NHS and our experience of managing the COVID-19 pandemic.

Diversification and disintermediation	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 advisors.
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. • 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 KPI's. • 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).
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 ensure we have long-term contracts in place with our PMI partners that avoids co-termination of contractual arrangements. We believe continuing to invest in our well-placed portfolio of hospitals provides a natural fit to the local requirements of all the PMI provider's 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.
Major infrastructure failure	All our hospitals have a backup power source provided from diesel powered generators that operates major circuits of an hospital, but some key equipment is not covered, e.g., 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. In theory, NHS hospitals will still have to take emergency transfers so Trusts should not withdraw SLAs but there may be increased frequency of delays to emergency transfers. Mitigation plans are in place and rehearsed at hospitals as delays have been experienced occasionally because of the periodically overstretched ambulance service across the UK. The COO chairs a regular multi-disciplinary winter planning meeting to co-ordinate response activities to any infrastructure failures.
Antimicrobial resistance	Our mitigations are: • Executive level awareness of the Government's 5-year AMR strategy • Participation in, and collaboration with, Government's monitoring of AMR outbreaks • Require clinicians to following guidance in line with national guidelines on the prescribing of antibiotics in line with Government guidelines. • 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' responsibility statement

Going Concern

The Group assessed going concern risk for the period through to 31 December 2024. As at 30 June 2023 the Group had cash of £75.7m, a Senior Loan Facility of £325m and an undrawn Revolving Credit Facility of £100m. On 3rd March 2023, the Group exercised the option to extend the senior loan facility by a further year, the arrangement matures in February 2027. 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 31 December 2024, 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 no longer forecasts a positive cash balance. 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 44% fall in annual revenue before the Group no longer forecast a positive cash balance. We do not believe that such a reduction of income revenue is a plausible consequence of the Group's identified principal risks.

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.

Each of the Directors confirms that, to the best of their knowledge:

- This condensed consolidated interim financial information for the six months ended 30 June 2023 has been prepared in accordance with UK adopted International Accounting Standard 34 and Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company on a consolidated basis.
- The interim management report, which is incorporated into the Chief -Executive Officer message, Operating Review and Financial Review, includes a fair review of the information as required by:
 - DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of the important events that have occurred during the six months of the current financial year and their impact on the condensed consolidated interim financial information and a description of the principal risks for the remaining six months of the year; and
 - DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially impacted the financial position or performance of the Group during the period and any material changes in the related party transactions described in the Group's Annual Report and Accounts for the year ended 31 December 2022.

By order of the Board

Justin Ash
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

13 September 2023

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity, Consolidated interim balance sheet, Consolidated interim statement of cash flows and related notes 1 to 24. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 3, the annual financial statements of the Group are prepared in accordance with UK adopted International Accounting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London, UK
13 September 2023

Condensed financial statements

Consolidated interim income statement

For the six months ended 30 June 2023

Six months ended 30 June (Unaudited)

(£ million)	Note	2023			2022		
		Total before adjusting items	Adjusting items (note 10)	Total	Total before adjusting items	Adjusting items (note 10)	Total
Revenue	6	676.5	–	676.5	597.9	–	597.9
Cost of sales		(362.3)	–	(362.3)	(328.4)	–	(328.4)
Gross profit		314.2	–	314.2	269.5	–	269.5
Other operating costs		(247.5)	(2.0)	(249.5)	(216.1)	(5.6)	(221.7)
Other income	8	1.1	–	1.1	1.2	–	1.2
Operating profit (EBIT)		67.8	(2.0)	65.8	54.6	(5.6)	49.0
Finance costs	9	(45.5)	–	(45.5)	(46.0)	–	(46.0)
Profit before taxation		22.3	(2.0)	20.3	8.6	(5.6)	3.0
Taxation	11	(8.1)	0.5	(7.6)	(4.4)	0.8	(3.6)
Profit / (loss) for the period		14.2	(1.5)	12.7	4.2	(4.8)	(0.6)
Profit / (loss) for the period attributable to owners of the Parent		13.9	(1.5)	12.4	4.3	(4.8)	(0.5)
Profit / (loss) for the period attributable to non-controlling interests		0.3	–	0.3	(0.1)	–	(0.1)
Profit / (loss) per share (in pence per share)							
– basic	12	3.4	(0.3)	3.1	1.1	(1.2)	(0.1)
– diluted	12	3.4	(0.4)	3.0	1.0	(1.1)	(0.1)

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2023

(£ million)	Six months to 30 June (Unaudited)	
	2023	2022
Profit for the period	12.7	(0.6)
Items that may be reclassified to profit or loss in subsequent periods		
Net gain on cash flow hedges (net of taxation)	3.4	0.6
Other comprehensive income for the period	3.4	0.6
Total comprehensive profit for the year, net of tax	16.1	–
Attributable to:		
Equity holders of the parent	15.8	0.1
Non-controlling interests	0.3	(0.1)

Consolidated interim statement of changes in equity

For the six months ended 30 June 2023

(£ million)	Notes	Share capital	Share premium	Capital reserves	EBT share reserves	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
As at 1 January 2022		4.0	826.9	376.1	(0.8)	(0.5)	(496.1)	709.6	(4.8)	704.8
Loss for the period		—	—	—	—	—	(0.5)	(0.5)	(0.1)	(0.6)
Other comprehensive profit for the period		—	—	—	—	0.6	—	0.6	0.0	0.6
Total comprehensive loss		—	—	—	—	0.6	(0.5)	0.1	(0.1)	—
Issue of new shares		—	2.8	—	—	—	—	2.8	—	2.8
Purchase of non-controlling interests	22	—	—	—	—	—	(0.5)	(0.5)	0.5	—
Share-based payments (net of tax)	21	—	—	—	—	—	1.1	1.1	—	1.1
As at 30 June 2022		4.0	829.7	376.1	(0.8)	0.1	(496.0)	713.1	(4.4)	708.7
As at 1 January 2023		4.0	830.0	376.1	—	6.6	(485.7)	731.0	(5.9)	725.1
Profit for the period		—	—	—	—	—	12.4	12.4	0.3	12.7
Other comprehensive profit for the period		—	—	—	—	3.4	—	3.4	—	3.4
Total comprehensive income		—	—	—	—	3.4	12.4	15.8	0.3	16.1
Dividends paid	13	—	—	—	—	—	(2.0)	(2.0)	—	(2.0)
Purchase of own shares by EBT		—	—	—	(3.1)	—	—	(3.1)	—	(3.1)
Issue of own shares by EBT		—	—	—	2.0	—	(2.0)	—	—	—
Additional interest acquired of non-controlling interests	22	—	—	—	—	—	(3.2)	(3.2)	3.2	—
Financial liability to acquire non-controlling interests	24	—	—	—	—	—	(9.6)	(9.6)	—	(9.6)
Share based payments (net of tax)	21	—	—	—	—	—	0.6	0.6	—	0.6
As at 30 June 2023		4.0	830.0	376.1	(1.1)	10.0	(489.5)	729.5	(2.4)	727.1

Consolidated interim balance sheet

		As at	
(£ million)	Notes	30 June 2023 (Unaudited)	31 December 2022 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,573.5	1,584.4
Intangible assets	15	345.8	345.8
Derivatives	18	6.8	5.0
Financial asset		7.8	4.6
		1,933.9	1,939.8
Current assets			
Inventories		42.4	40.6
Trade and other receivables		122.0	100.5
Derivatives	18	6.6	3.6
Cash and cash equivalents		75.7	74.2
		246.7	218.9
Non-current assets held for sale	5	1.1	1.1
		247.8	220.0
Total assets		2,181.7	2,159.8
EQUITY AND LIABILITIES			
Equity			
Share capital		4.0	4.0
Share premium		830.0	830.0
Capital reserves		376.1	376.1
EBT share reserves		(1.1)	—
Hedging reserve		10.0	6.6
Retained earnings		(489.5)	(485.7)
Equity attributable to owners of the Parent		729.5	731.0
Non-controlling interests		(2.4)	(5.9)
Total equity		727.1	725.1
Non-current liabilities			
Bank borrowings	16	321.1	321.4
Lease liability	17	770.7	773.7
Deferred tax liability		67.4	56.2
Financial liabilities	24	9.6	—
		1,168.8	1,151.3
Current liabilities			
Bank borrowings	16	3.1	2.9
Lease liability	17	93.9	92.8
Provisions	19	17.2	21.7
Trade and other payables	20	171.4	164.5
Income tax payable		0.2	1.5
		285.8	283.4
Total liabilities		1,454.6	1,434.7
Total equity and liabilities		2,181.7	2,159.8

Consolidated interim statement of cash flows

For the six months ended 30 June 2023

(£ million)	Notes	Six months ended 30 June (Unaudited)	
		2023	2022
Cash flows from operating activities			
Profit before taxation		20.3	3.0
Adjustments for:			
Depreciation	7	50.1	51.2
Adjusting Items		(0.9)	1.3
Share-based payments	21	1.5	1.3
Fair value movement on financial assets		(0.7)	(0.9)
(Profit) / Loss on disposal of property, plant and equipment	7	—	0.1
Finance costs	9	45.5	46.0
		115.8	102.0
Movements in working capital:			
(Increase) in trade and other receivables		(20.7)	(18.1)
(Increase)/Decrease in inventories		(1.8)	1.1
Increase in trade and other payables		7.8	23.7
(Decrease) in provisions		(4.5)	(17.2)
Cash generated from operations		96.6	91.5
Income tax received		—	—
Net cash from operating activities		96.6	91.5
Cash flows from investing activities			
Purchase of property, plant and equipment		(31.0)	(44.1)
Proceeds of disposal of property, plant and equipment		0.2	0.1
Movement in restricted cash		(2.5)	—
Net cash used in investing activities		(33.3)	(44.0)
Cash flows from financing activities			
Bank interest paid		(9.3)	(13.3)
Lease interest paid		(36.3)	(33.8)
Payment of lease principal		(11.1)	(7.3)
Payment of bank borrowings		—	(100.0)
Purchase of non-controlling interests		—	(2.7)
Proceeds from the issue of shares		—	2.8
Purchase of own shares		(3.1)	—
Dividends paid to equity holders of the parent	13	(2.0)	—
Net cash used in financing activities		(61.8)	(154.3)
Net increase in cash and cash equivalents		1.5	(106.8)
Cash and cash equivalents at beginning of period		74.2	202.6
Cash and cash equivalents at end of period		75.7	95.8
Adjusting items (note 10)			
Adjusting items included in the cash flow		(2.9)	(4.3)
Total Adjusting items		(2.0)	(5.6)

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

The condensed consolidated interim financial information for the six months ended 30 June 2023 was approved by the Board on 13 September 2023.

2. Basis of preparation

The condensed consolidated interim financial information has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with UK adopted International Accounting Standard 34 "Interim Financial Reporting". It does not include all the information required for full annual financial statements and should be read in conjunction with information contained in the Group's Annual Report and Accounts for the year ended 31 December 2022. The condensed consolidated interim financial information has been reviewed, not audited.

The financial information contained in these interim statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Financial information for the year ended 31 December 2022 has been extracted from the statutory accounts which were approved by the Board of Directors on 1 March 2023 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Going concern

The Group assessed going concern risk for the period through to 31 December 2024. As at 30 June 2023 the Group had cash of £75.7m, a Senior Loan Facility of £325m and an undrawn Revolving Credit Facility of £100m. On 3rd March 2023, the Group exercised the option to extend the senior loan facility by a further year, the arrangement matures in February 2027. 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 31 December 2024, 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 no longer forecasts a positive cash balance. 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 44% fall in annual revenue before the Group no longer forecast a positive cash balance. We do not believe that such a reduction of income revenue is a plausible consequence of the Group's identified principal risks.

It should be noted that we are in a period of unprecedented 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.

3. Accounting policies

In preparing the condensed consolidated financial information, 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 2022 except for the application of new standards and amendments mentioned below effective from 1 January 2023. The accounting policies are consistent with those of the previous financial year and corresponding interim period.

The annual financial statements of the Group will be prepared in accordance with UK adopted International Accounting Standards (UK adopted International Financial Reporting Standards ("IFRSs")).

New standards, interpretations and amendments applied

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective, nor are they expected to have a material impact on the Group.

The following amendments to existing standards were effective for the Group from 1 January 2023. These have not had a material impact on the Group.

- Amendments to IAS 8 – Definition of accounting estimates effective 1 January 2023
- International Tax Reform – Pillar Two Model Rules - Amendments to IAS 12 effective 1 January 2023 but not required for interim periods ending on or before 31 December 2023.
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 effective 1 January 2023
- Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction effective 1 January 2023
- IFRS 17 – Insurance contracts effective 1 January 2023

Notes to the announcement *continued*

4. Significant judgements and estimates

The preparation of the condensed consolidated interim financial information required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements and estimates used in the application of the Group's accounting policies are the same as those described in the Group's Annual Report and Accounts for the year ended 31 December 2022 with the exception of those estimates used in the assessment of the medical malpractice provision in connection with the Ian Paterson claims which are subject to ongoing review.

5. Non-current assets held for sale

One property remains as held for sale in the current period.

(£ million)	As at	
	30 June 2023 (Unaudited)	31 December 2022 (Audited)
East Midlands Cancer Centre property (Bostocks Lane)	1.1	1.1
Total assets held for sale	1.1	1.1

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 classified as held for sale.

6. Segmental reporting

In determining the Group's operating segment, management has primarily considered the financial information in the internal reports that are reviewed and used by the executive management team and the Board of Directors (in aggregate the chief operating decision maker) 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 wider customer (payor) group is shown below:

(£ million)	Six months ended 30 June (Unaudited)	
	2023	2022
Insured	306.6	265.2
NHS	170.5	145.6
Self-pay	178.4	174.1
Other	21.0	13.0
Total revenue	676.5	597.9

Group revenues increased by 13.1% to £676.5m (2022: £597.9m). The increase in revenue is mainly driven by the strong performance of our private business and in particular the recovery by PMI patients, which increased by 15.6%. Total NHS revenue increased by 17.1% to £170.5m (2022: £145.6). Revenue of £6.7m included in other relates to revenue generated by the Doctors Clinic Group which was acquired in December 2022.

7. Operating profit

Operating profit has been arrived at after charging / (crediting):

(£ million)	Six months ended 30 June (Unaudited)	
	2023	2022
Depreciation of property, plant and equipment	32.5	34.6
Depreciation of right of use assets	17.6	16.6
Lease payments made in respect of low value and short leases	8.8	6.7
Fair value loss on financial liability	-	0.8
Profit on disposal of property, plant and equipment	-	0.1
Staff costs	257.7	233.9

Notes to the announcement *continued*

8. Other income

(£ million)	Six months ended 30 June (Unaudited)	
	2023	2022
Fair value movement on financial asset	0.7	0.9
Realised profit in respect of financial asset	0.4	0.3
Total other income	1.1	1.2

The fair value movement in respect of the financial asset was recognised to reflect the on-going profit share arrangement with Genesis Care which arose as part of the sale of the Bristol Cancer Centre in 2019. Profits of £0.4m have been realised in respect of this arrangement.

9. Finance costs

6 (£ million)	Six months ended 30 June (Unaudited)	
	2023	2022
Finance costs:		
Interest on bank facilities	8.7	4.8
Amortisation of fee arising on facilities extensions/borrowing costs ⁽¹⁾	0.5	0.6
Accelerated amortisation and loss on extinguishment of loan ⁽¹⁾	-	3.1
Refinancing fees	-	1.0
Interest on obligations under leases	36.3	36.5
Total net finance costs	45.5	46.0

1. Borrowing costs of £5.0m on the refinancing of the senior facility and £0.9m on the extension of the facility were capitalised to the senior finance facility, these are being amortised. In the prior year £3.1m of borrowing costs were charged to the profit and loss on the extinguishment of the old loan.

10. Adjusting items

(£ million)	Six months ended 30 June (Unaudited)	
	2023	2022
Business reorganisation and corporate restructuring costs	1.6	3.3
Asset acquisitions, disposals, impairment and aborted project costs	0.4	1.9
Remediation of regulatory compliance or malpractice	-	0.3
Hospitals set up and closure costs	-	0.1
Total Adjusting items	2.0	5.6
Income tax charge / (credit) on Adjusting items	(0.5)	(0.8)
Total post-tax Adjusting items	1.5	4.8

Adjusting items comprise those matters where the Directors believe the financial effect should be adjusted for due to their nature or amount, in order to provide a more comparable measure of the Group's underlying performance.

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. As a result of this initiative, additional costs of £1.6m have been incurred in the period. This initiative will be implemented over several phases and to date costs of £7.3m have been incurred. The initial phase of the initiative was completed in 2022, the estimated time frame to overall completion being the end of 2024.

Asset acquisitions, disposals, impairment and aborted project costs mainly comprise costs in respect of Doctors Clinic Group as costs are incurred to integrate the Group into the Spire Group. 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.

11. Taxation

(£ million)	Six months ended 30 June (Unaudited)	
	2023	2022
Current tax:		
UK Corporation tax credit	(1.4)	-
Total current tax credit	(1.4)	-
Deferred tax:		
Origination and reversal of temporary differences	9.5	0.5
Impact of adjusting items	(0.5)	-
Adjustments in respect of previous periods	-	3.1
Total deferred tax charge	9.0	3.6
Total tax charge	7.6	3.6

Notes to the announcement *continued*

The tax charge for the period has been calculated using an estimate of the effective annual rate of tax for the full year. This has been applied to the pre-tax profits for the six months ended 30 June 2023. The Group has separately calculated the tax rates applicable in respect of discrete items, such as the vesting of the SAYE scheme and release of the Claremont tax provisions, for the period.

During the period, the UK government substantively enactment of the Organisation for Economic Co-operation and Development's Global Anti-Base Erosion Model Rules (Pillar Two), applicable to accounting periods beginning on or after 31 December 2023. For H1 2023 the Group has adopted the International Accounting Standards Board's temporary exemption from recording deferred taxes for Pillar Two. The Group expects to fall within the UK scope of these rules (Qualifying Domestic Minimum Top Up Tax) and at this stage is in the process of assessing the impact and are actively monitoring the development of the rules and associated guidance.

12. Earnings per Share (EPS)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

	Six months ended 30 June (Unaudited)	
	2023	2022
Profit / (loss) for the period attributable to owners of the Parent (£ million)	12.4	(0.5)
Weighted average number of ordinary shares	404,042,101	401,519,952
Adjustment for weighted average number of shares held in the Employee Benefit Trust (EBT)	(270,626)	(128,690)
Weighted average number of ordinary shares in issue (No.)	403,771,475	401,391,262
Basic profit / (loss) per share (in pence per share)	3.1	(0.1)

For dilutive earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares arising from share options.

	Six months ended 30 June (Unaudited)	
	2023	2022
Profit / (loss) for the period attributable to owners of the Parent (£ million)	12.4	(0.5)
Weighted average number of ordinary shares in issue	403,771,475	401,391,262
Adjustment for weighted average number of contingently issuable shares	5,837,070	—
Diluted weighted average number of ordinary shares in issue (No.)	409,608,545	401,391,262
Diluted profit / (loss) per share (in pence per share)	3.0	(0.1)

In H1 2022 the weighted average number for contingently issuable shares would be anti-dilutive, they are excluded from the above. However, 8,304,963 shares are potentially dilutive in the future.

The Directors believe that EPS excluding adjusting items ("adjusted EPS") better reflects the underlying performance of the business and assists in providing comparable performance of the Group.

Reconciliation of profit to profit excluding adjusting items ("adjusted profit"):

	Six months ended 30 June (Unaudited)	
	2023	2022
Profit / (loss) for the period attributable to owners of the Parent (£ million)	12.4	(0.5)
Adjusting items (net of taxation) (see note 10)	1.5	4.8
Adjusted profit after tax (£ million)	13.9	4.3
Weighted average number of Ordinary Shares in issue	403,771,475	401,391,262
Weighted average number of dilutive Ordinary Shares	409,608,545	409,696,225
Adjusted basic earnings per share (in pence per share)	3.4	1.1
Adjusted diluted earnings per share (in pence per share)	3.4	1.0

13. Dividends

	Six months ended 30 June (Unaudited)			
	2023	2022	2023	2022
	Pence per share	Pence per share	£million	£million
Amounts recognised as distributions to equity shareholders				
Ordinary shares				
Final dividend for the year ended 31 December 2022	0.5	—	2.0	—
Total dividends	0.5	—	2.0	—

Notes to the announcement *continued*

14. Property, plant and equipment

(£ million)	Freehold property	Leasehold improvements	Equipment	Assets in the course of construction	Sub-total	Right of use asset	Total
Net book value at 1 January 2023	652.0	120.3	163.5	30.2	966.0	618.4	1,584.4
Additions	3.2	3.8	19.9	4.1	31.0	5.1	36.1
Adjustments to ROU	-	-	-	-	-	3.3	3.3
Disposals and transfers	2.9	13.1	(0.5)	(15.7)	(0.2)	-	(0.2)
Depreciation	(6.1)	(4.8)	(21.6)	-	(32.5)	(17.6)	(50.1)
Net book value at 30 June 2023	652.0	132.4	161.3	18.6	964.3	609.2	1,573.5

The net book value of land is £156.3m (December 2022: £156.3m). The Group has pledged nine of its freehold properties as security for the senior finance facility, and the net book value of these properties is £160.9 (December 2022: £157.6m). There were no borrowing costs capitalised during the period (2022: Nil).

Right of use assets are included in the following property, plant and equipment categories:

(£ million)	Leasehold Property	Equipment & motor vehicles	Total
Net book value at 1 January 2023	601.8	16.6	618.4
Additions	0.5	4.6	5.1
Adjustments to ROU	3.3	-	3.3
Depreciation	(15.3)	(2.3)	(17.6)
Net book value at 30 June 2023	590.3	18.9	609.2

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 on key assumptions.

In order to estimate the value-in-use, management has used trading projections covering the period to December 2027 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, taking 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 considers 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 four and a half 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 is one property triggered for detailed review in the period owing to the relatively lower level of headroom. Management has performed a sensitivity analysis on this property 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 four and a half 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 sensitivity analysis identified that a reasonably possible change that would result the elimination of headroom for the property as shown in the table below.

The Group has used a pre-tax discount rate of 11.1% including the effect of IFRS 16. The sensitivity analysis identified that a reasonably possible change in the pre-tax discount rate, would result in the elimination of headroom as shown in the table below.

Notes to the announcement *continued*

For the property triggered for review 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.

	Headroom (the amount that recoverable amount exceeded the carrying amount)	EBITDA growth for the four and half year period	Sensitivity for decrease of EBITDA growth per annum	Sensitivity for increase of the pre-tax discount rate sensitivity
Property CGU 1	£2.5m	2% - 20.5%	15.2%	374 bps

A long-term growth rate of 2.0% has been applied to cash flows beyond 2027 based on 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 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.

15. Intangible asset

(£ million)

Total

Cost or valuation:

At 31 December 2022 & 30 June 2023 546.8

Impairment:

At 31 December 2022 & 30 June 2023 201.0

Carrying amount:

At 30 June 2023 345.8

At 31 December 2022 345.8

Impairment testing

The Directors have reviewed goodwill for indicators of significant impairment since the most recent financial year end. As at 31 December 2022 the recoverable amount of goodwill exceeded the carrying amount by c. £400m. Since the 2022 financial year end there have been no indicators of impairment and therefore management have not performed a detailed impairment calculation for the interim period.

16. 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 £100.0m of the Senior Loan Facility. During the period, the Group exercised the option to extend the facility by a further year. There have been no modifications to the agreement terms as a result. The new arrangement has a maturity of February 2027. The financial covenants relating to this new agreement and the extension are materially unchanged. The loan is non-amortising and carries interest at a margin of 2.05% over SONIA (2022: 2.05% over SONIA).

(£ million)	As at	
	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Amount due for settlement within 12 months	3.1	2.9
Amount due for settlement after 12 months	321.1	321.4
Total bank borrowings	324.2	324.3

Net debt for the purposes of the covenant test in respect of the Senior Loan Facility was £249.3m (December 2022: £250.1m) and the net debt to EBITDA ratio was 2.1x (December 2022: 2.2x). The net debt for covenant purposes comprises the senior facility of £325.0m less cash and cash equivalents. EBITDA for covenant purposes comprises Adjusted EBITDA for Last Twelve Months (LTM) of pre-IFRS 16 Adjusted EBITDA of £130.3m (December 2022: £123.9m) less the rental of a property lease pre-IFRS 16 of £9.8m (2022: £9.5m).

Terms and debt repayment schedule

The maturity date is the date on which the relevant bank loans are due to be fully repaid, as at the balance sheet date.

Notes to the announcement *continued*

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

(£ million)	Maturity	Margin over SONIA	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Senior finance facility	February 2027	2.05%	324.2	324.3
Revolving credit facility (undrawn committed facility)	February 2027		100.0	100.0

Changes in bank borrowings and lease liabilities arising from financing activities

(£ million)	1 January	Cash flows	Non-cash changes ¹	Additions ¹	Other	30 June
2023						
Bank loans	324.3	(9.3)	9.2	-	-	324.2
Lease liabilities	866.5	(47.4)	36.3	8.4	0.8	864.6
Total	1,190.8	(56.7)	45.5	8.4	0.8	1,188.8

1. Non-cash changes reflect accrued interest charged on the loan and interest charge on lease liabilities. Amortised fees of £0.5m are included in non-cash changes for bank loans.

(£ million)	1 January	Cash flows	Non-cash changes	Additions	Loan modification	30 June
2022						
Bank loans	427.5	(113.4)	8.5	-	1.0	323.6
Lease liabilities	837.8	(41.1)	35.4	10.5	-	842.6
Total	1,265.3	(154.5)	43.9	10.5	1.0	1,166.2

17. Lease liability

The Group has finance arrangements in place 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 £864.6m (H1 22: £842.6m), expire in various years to 2042 and carry a blended implicit interest rate of 8.4% (2022: 8.4%). Rent in respect of hospital property leases are reviewed annually with reference to RPI, subject to assorted floors and caps. The discount rate used is calculated on a lease-by-lease basis, and based on estimates of incremental borrowing rates.

In the period, the Group recognised charges of £8.8m (2022: £6.7m) of lease expenses relating to short term and low value 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 for all leases of £56.2m (2022: £47.8m). The Group has not made any variable lease payments in the year. The Group is not a lessor for any leases to external parties. There have been no (2022: no) sale and leaseback transactions in this period.

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 the current period.

18. Derivatives

The Group has a derivative contract in respect of an interest rate swap in place:

(£ million)	As at	
	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Amount due for settlement within 12 months	6.6	3.6
Amount due for settlement after 12 months	6.8	5.0
Total derivatives	13.4	8.6

The Group entered into interest rate swaps on 25 July 2022. The movement in respect of derivatives reflects £1.5m (December 2022: £1.2m) recycled in the period and a £6.3m credit (December 2022: £8.1m credit) in fair value. All movements are reflected within other comprehensive income.

Notes to the announcement *continued*

19. Provisions

The movement for the period in the provisions is as follows:

(£ million)	Medical malpractice	Business restructuring and other	Total
At 1 January 2023	19.4	2.3	21.7
Increase in existing provisions	0.6	–	0.6
Provisions utilised	(3.6)	(1.0)	(4.6)
Provisions released	(0.5)	–	(0.5)
At 30 June 2023	15.9	1.3	17.2

Medical malpractice relates to estimated liabilities arising from claims for damages in respect of services previously supplied to patients. Amounts are shown gross of insured liabilities. Insurance recoveries of £4.9m (December 2022: £5.4m) are recognised in other receivables.

Following the completion of the criminal proceedings against Ian Paterson, a Consultant who previously had practising privileges at Spire Healthcare, management agreed settlement with all current and known civil claimants (and the other co-defendants) and made a provision for the expected remaining costs in FY20. The provision is being utilised as expected, and no addition has been made in H1 2023. This provision remains subject to ongoing and active review following the publication of the Public Inquiry report on Paterson issued on 4 February 2020. 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.

The provision in relation to the Ian Paterson costs has been determined before taking account of any potential further recoveries from insurers.

As at 30 June 2023, Business Restructuring and Other provisions primarily includes non-patient claims made against the Group. The Group is in the process of settling or defending such claims as appropriate.

Management have sought external counsel, where appropriate, to determine the appropriate provision levels.

Provisions as at 30 June 2023 are materially considered to be current and expected to be utilised at any time within the next twelve months.

20. Trade and other payables

(£ million)	As at	
	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Trade payables	66.1	67.2
Accrued expenses	60.7	58.4
Social security and other taxes	10.7	9.7
Other payables	33.9	29.2
Trade and other payables	171.4	164.5

Accrued expenses includes holiday pay accrued of £6.0m (December 2022: £5.2m) due to staff deferring leave to maintain operations throughout the COVID-19 pandemic.

Other payables includes an accrual for pensions and payments on account. Revenue in respect of payments on account are not recognised until the performance obligation has been met. At June 2023, the balance of payments on account was £9.3m (December 2022: £11.9m), and other credit balances, largely relating to NHS credits, were £21.4m (December 2022: £28.2m).

21. 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 recognised in the income statement was £1.5m in the six months ended 30 June 2023 (2022: £1.3m). Employer's National Insurance is also 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 period was £0.2m (2022: £0.2m).

A summary of additional schemes opened in the period are shown below:

Long Term Incentive Plan

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 2026 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 2034. The Executive Directors are subject to a 2 year holding period, whilst other senior management are not.

Deferred Share Bonus Award

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.

Notes to the announcement *continued*

22. Non-controlling interest

On 5 May 2023 Spire Healthcare Limited acquired an additional 24.9% interest in Montefiore House Limited in consideration of the release and discharge of outstanding liabilities. Prior to this agreement the Group held a 50.1% interest. The Group now owns 75% of this entity. The accumulated interest relating to the 24.9% interest acquired in Montefiore has therefore been reclassified to retained earnings. In addition, the Group entered into an agreement in which both parties can exercise an option for Spire to purchase the remaining 25% interest in the subsidiary at a future date. Refer to Note 24 for more detail.

23. Financial risk management and impairment of financial assets

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

Note 30 in the Annual Report and Accounts 2022 sets out the Group's policies and processes for measuring and managing risk. These have not changed significantly during the period to 30 June 2023.

Credit risk and impairment

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's exposure to credit risk from trade receivables is considered to be low because of the nature of its customers and policies in place to prevent credit risk occurring in normal circumstances. A large proportion of revenue arise from insured patients' business and the NHS. Insured revenues give rise to trade receivables which are mainly due from large insurance institutions, which have high credit worthiness. The remainder of revenues arise from individual self-pay patients and Consultants. Individual self-pay patients continue to be the largest risk for the Group given the current economic uncertainty. The Expected Credit Loss ("ECL") as at June 2023 is £5.2m (December 2022: £5.0m).

The Group establishes an allowance for impairment that represents its expected credit loss in respect of trade and other receivables. This allowance is composed of specific losses that relate to individual exposures and also an expected credit loss component established using rates reflecting historic information for payor groups, and forward looking information. Given the continued economic uncertainty, the Group has considered the provision required, specifically for self-pay patients and maintained an adjustment to the provision accordingly, which is in line with the position at December 2022.

Investments

The Group limits its exposure to credit risk by only investing in short-term money market deposits with large financial institutions, which must be rated at least Investment Grade by key rating agencies.

Interest rate risk

Interest rates on variable rate loans are determined by SONIA fixings on a quarterly basis. Interest is settled on all loans in line with agreements and is settled at least annually.

	Variable	Total	Undrawn facility
30 June 2023 (£ million)	325.0	325.0	100.0
Effective interest rate (%)	5.23%	5.23%	
31 December 2022 (£ million)	325.0	325.0	100.0
Effective interest rate (%)	3.19%	3.19%	

The following derivative contracts were in place at 30 June 2023 (December 2022: £8.6 million asset):

(£ million)	Interest rate	Maturity date	Notional Amount	Carrying value Asset / (Liability)
Interest rate swap	2.7780%	February 2026	243.8m	13.4

The fair value of the above instrument is considered the same as its carrying value. In line with disclosures in note 30 of the 2022 Annual report and accounts, the above instrument uses level 2 of the fair value hierarchy to measure the fair value of the instrument.

Notes to the announcement *continued*

Sensitivity analysis

A change in 25 basis points in interest rates at the reporting date would have increased/(decreased) equity and reported results by the amounts shown below. This analysis assumes that all other variables remain constant.

(£ million)	Profit or loss		Equity	
	25bp increase	25bp decrease	25bp increase	25bp decrease
30 June 2023				
Variable rate instruments	(0.3)	0.3	(0.3)	0.3
31 December 2022				
Variable rate instruments	(0.2)	0.2	(0.2)	0.2

Liquidity risk

The following are contractual maturities, as at the balance sheet date, of financial liabilities, including interest payments and excluding the impact of netting arrangements:

Maturity analysis								
(£ million)	Carrying amount	Contractual cash outflow/ (inflow)	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5
Trade and other payables	160.7	160.7	160.7	—	—	—	—	—
Bank borrowings	324.2	418.9	25.2	26.7	23.8	343.2	—	—
Lease liabilities	864.6	1,784.8	93.9	94.0	94.2	92.6	92.9	1,317.2
Financial Liability	9.6	10.7	—	10.7	—	—	—	—
	1,359.1	2,375.1	279.8	131.4	118.0	435.8	92.9	1,317.2
Derivative interest rate swap	(13.4)	(15.0)	(6.6)	(5.2)	(3.2)	—	—	—
Total	1,345.7	2,360.1	273.2	126.2	114.8	435.8	92.9	1,317.2

Maturity analysis								
(£ million)	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5
Trade and other payables	154.8	154.8	154.8	—	—	—	—	—
Bank borrowings	324.3	394.4	20.2	22.1	20.5	331.6	—	—
Lease liabilities	866.5	1,819.1	92.8	93.2	93.6	92.2	92.2	1,355.1
	1,345.6	2,368.3	267.8	115.3	114.1	423.8	92.2	1,355.1
Derivative interest rate swap	(8.6)	(9.2)	(2.9)	(3.6)	(2.1)	(0.6)	—	—
Total	1,377.0	2,359.1	264.9	111.7	112.0	423.2	92.2	1,355.1

Capital management

At the balance sheet date, the Group's committed undrawn facilities, and cash and cash equivalents were as follows:

(£ million)	As at	
	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Committed undrawn revolving credit facility	100.0	100.0
Cash and cash equivalents	75.7	74.2

Capital commitments

Capital commitments comprise amounts payable under capital contracts which are duly authorised and in progress at the balance sheet date. They include the full costs 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 balance sheet date were £25.6m (December 2022: £27.0m).

Bases of valuation

Management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The carrying value of debt is approximately equal to its fair value. During the period, there were no transfers between the levels in the fair value hierarchy.

Notes to the announcement *continued*

A derivative is a financial instrument whose value is based on one or more underlying variables. The Group uses derivative financial instruments to hedge its exposure to interest rate risk. Derivatives are not held for speculative reasons. Fair values are obtained from market observable pricing information including interest rate yield curves and have been calculated as follows; fair value of interest rate swaps is determined as the present value of the estimated future cash flows based on observable yield curves.

The financial asset reflects a profit share arrangement with a partner. There are no market observable prices for the valuation. Management uses the expected present value technique – method 2 in determining the fair value of the arrangement. Management uses forward looking and historical trends of the partner's gross profits, growth rate, risk factors and an appropriate discount rate to determine the fair value. Sensitivities are also taken into account when reviewing the fair value.

As at 30 June 2023, the Group held the following financial instruments measured at fair value. There has been no change in the hierarchy categories during the period.

Instruments measured at fair value
(£ million)

	Value as at 30 June 2023	Value as at 31 December 2022	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss					
Profit share arrangement	5.3	4.6	–	–	5.3
Financial liabilities at fair value through profit or loss and using hedge accounting					
Interest rate swaps	13.4	8.6	–	13.4	–

In the period, Spire Healthcare received a profit share in respect of the financial asset of £0.4m. In addition a fair value movement of £0.7m was recognised in the income statement, and remains unrealised. The movement on the interest rates swaps related wholly to fair value movements and is unrealised.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and
- Level 3: techniques which use the inputs which have a significant effect on the recorded fair value that are not based on observable market data.

24. Financial liabilities

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 performance and the Group multiple. The option can be exercised between 2 – 5 years. The expected future cash flow to settle the obligation is discounted at the Group cost of debt of 7.6%. 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 NCI	9.6	-
Carrying amount at 30 June	9.6	-