**Registered number: 08210882**

# Gracewell Healthcare 3 Limited

## Report and Financial Statements

## for the year ended 31 December 2019

**Gracewell Healthcare 3 Limited**

## Company Information

| | |
|---|---|
| **Directors** | D. Hatch<br>C. Roberts<br>J. Skiver |
| **Company secretary** | CSC Corporate Services (UK) Limited |
| **Registered number** | 08210882 |
| **Registered office** | 10th Floor<br>5 Churchill Place<br>London<br>E14 5HU |
| **Independent auditors** | Ernst & Young LLP, Statutory Auditor<br>1 More London Place<br>London<br>SE1 2AF |

**Gracewell Healthcare 3 Limited**

## Contents

## Introduction

The directors present their strategic report for Gracewell Healthcare 3 Limited, "the Company", for the year ended 31st December 2019

## Business review

The Company's principal activity is the operation of residential and nursing care facilities in the UK. The Company operated 17 facilities during the year. The facilities and dates the operations were included in the Company are listed below.

| Community | Resident capacity | Date in company |
|---|---|---|
| Fareham | 86 | August 2018 |
| Horley | 60 | August 2018 |
| Salisbury | 63 | August 2018 |
| Weymouth | 70 | August 2018 |
| Abercorn House/ Camberley | 90 | August 2018 |
| Church Crookham | 60 | June 2014 |
| Newmarket | 85 | August 2018 |
| Edgbaston | 70 | April 2015 |
| Hamilton Court/ Camberley | 12 | August 2018 |
| Newbury | 66 | October 2016 |
| Bath | 62 | April 2017 |
| Adderbury | 60 | April 2017 |
| Sutton | 83 | November 2016 |
| Sutton Coldfield | 65 | February 2017 |
| High Wycombe | 72 | July 2017 |
| Bookham | 75 | August 2017 |
| Woking | 60 | February 2018 |

## Key performance indicators

The Company's performance was not as strong as expected during the period. The Company's key performance indicators across the year and prior year are shown in the table below.

| | 2019 | 2018 | % Change |
|---|---|---|---|
| **Revenue (£000)** | 61,430 | 40,701 | 51 |
| **Operating expenses (£000)** | 70,952 | 46,229 | 53 |
| **Operating Loss (£000)** | (9,522) | (5,528) | 72 |
| **Total resident days** | 353,559 | 233,856 | 51 |
| **Occupancy rate (%)** | 85.04 | 74.22 | 15 |
| **Average daily rate (£)** | 173.75 | 185.31 | (6) |

Revenue increased by 51% year on year in line with the same increase in total resident days. This was due to a number of factors. The Company moved from operating 10 facilities to 17 facilities in the prior year. This resulted in an increased total resident capacity of 32% year on year. In addition to this the Company has increased its occupancy rate by 15% during the year.

Operating expenses have increased by 53% approxiately in line with the increase in revenue

This all resulted in a 72% increase in operating loss to £9,522,000.

## Principal risks and uncertainties

**Market risk**
Senior care is driven more by need rather than the wider economic environment and the changing market conditions are not expected to have a material impact on the company's business.

**Liquidity risk**
The Company manages this risk in a variety of ways; cash flow forecasts are produced and monitored; a cash sharing agreement has been entered into with related parties and the directors receive confirmation that Welltower Inc (a parent undertaking) is willing to provide the necessary financial support and they make an assessment to ensure that Welltower Inc has the ability to provide such support as necessary.

**Competition risk**
The company recognises the emergence of direct and indirect competition and the potential impact to the occupancy and revenue of the company. The company undertakes regular review of its current competitors regarding their pricing and service offering to ensure it remains the market leader in its catchment area.

**Legislative risk**
The healthcare industry is highly regulated and strong relationships with the Care Quality Commission are important. The quality of care is at the core of the business.

**Brexit**
The Company recognise that Brexit has the potential to have a material impact on the care sector as a whole relating to the reduced availability of care staff and particularly nurses. The Company continues to monitor developments closely with regards both existing EU nationals and ongoing free movement of people to ensure that it can respond accordingly once the political agreement becomes clear.

**Covid-19**
The immediate impact of Covid-19 has seen the government imposed restrictions in the number of visitors allowed into the homes and consequently a reduced number of presentations "Show Rounds" of potential residents, meaning that move in numbers have reduced in the short term. The Company has taken steps to reduce outgoings and to safeguard its team members to enable it to continue to provide the best care to its residents and protection for its team members by investing heavily in PPE for all who need it, alongside utilising the government furlough scheme for a very small number of staff who are shielding and not able to work where appropriate. Some non-essential Capital expenditure projects have been deferred and the Company is taking a prudent and vigilant approach on all expenditure to offset any revenue shortfall due to the limited move in opportunities.

## Directors' statement of compliance with duty to promote the success of the Company

The Directors of the Company have acted in accordance with their duties codified in law, which include their duty to act in the way in which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members, having regard to the stakeholders and matters set out in section 172(1) of the Companies Act 2006.

The Gracewell Group has a long-standing commitment to excellence, integrity and ethical behaviour in championing quality of life for all seniors. The Company's commitment is based on incorporating the Group's mission, Principles of Service and Core Values into everything it does. This includes the relationships that it builds with Gracewell residents, their families, our team members and business partners.

### Residents

Residents are at the core of what the Company does. The Company aims to provide a supportive home filled with friends (including resident pets), trusted and compassionate carers, nutritious meals, and days filled with enriching activities that nurture the mind, body and spirit.

The Company always looks to improve performance in all areas of the care home. The directors meet quarterly to review KPI's, quality and key issues facing the homes. In addition the regional leaders meet monthly to review standards in: resident care, clinical operations, regulatory & compliance, dining, facilities & maintenance, human resources & training.

The Company has continued with its program of refurbishment of the communities to ensure the high quality of the facilities for the residents.

### Team members

The Company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004.

The Employee Engagement programs are built on our philosophy that our people are our most valuable asset and make a positive difference for our customers when they can be themselves at work. We aim to promote a positive and inclusive working environment where team members can be open and honest as well as developed within their role and recognised for the commitment that they display on a daily basis.

*Communication*

During the year, the policy of providing employees with information, including information relating to the economic and financial factors affecting the performance of the company, has been continued through the quarterly "All Company Call" led by the CEO and senior management. Regular "Town Hall" meetings are held between local management and employees to share information and give recognition to employees. During the Covid-19 pandemic these calls have been expanded to weekly operational calls with the senior management at the homes to ensure that everybody is kept fully up to date with developments and procedural changes due to the uncertain and unprecedented nature of the pandemic.
In addition the monthly "Your Voice" magazine covers news and employees views, along with a weekly electronic newsletter distributed to all employees aimed to share important messages from the Executive Leadership Team and encourage engagement.

*Learning*

It is important that all our people grow and develop at Sunrise and Gracewell. We offer access to both professional and personal skills development, both via our e-learning platform and through our National Training Officers who provide educational support around our internal processes and procedures. Throughout 2019 and 2020 we have also implemented a Leadership Development Program through an external training provider to provide the leadership roles within the business the tools they need to develop themselves alongside developing their teams.

*Benefits*
Our approach to benefits enables each home to attract and retain people in a way that is relevant and sustainable. We aim to be competitive within the local markets for employer pay and incentives and enhanced our offering during the Covid-19 pandemic by increasing all hourly paid team members basic rate of pay by £2 per hour throughout April and May. Our overtime offering was also increased as well as SSP and isolation pay.

*Have your Say*
Employees also take part in an annual engagement survey "Have your Say". This survey provides team members with a forum whereby they can give confidential feedback to the business on what's working well, and areas in which the company may be lacking employee expectations.

*Summer of Sunrise*
Every year we spend 1 week focused on celebrating our team members and providing recognition for their hard work and commitment to our residents. The week will typically be spent on engagement activities such as team BBQ's and events focused on celebrating teams success.

*Heart and Soul Awards*
The Heart & Soul Awards are an annual celebration, and a chance for team members to be recognised by their peers and celebrated by the entire company for going above and beyond what would normally be required.

**Suppliers**
Suppliers are critical to delivering a high quality care and environment to the residents. The Company aims to treat its suppliers fairly and pay them within agreed timescales, holding high standards of business conduct. The Company works with its suppliers to ensure that they have effective controls in place to protect its residents' health and safety and the security and privacy of their data.

This report was approved by the board on 23 September 2020 and signed on its behalf.

DocuSigned by:
Justin Skiver
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**J. Skiver**
Director

# Directors' Report
## for the year ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

### Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Results and dividends

The loss for the year, after taxation, amounted to £5,086,000 (2018 - loss £5,528,000).

The directors do not recommend the payment of a dividend for the year.

### Directors

The directors who served during the year and up to the date of signing the financial statements were as follows:

D. Hatch
C. Roberts
J. Skiver

## Going concern

The financial statements have been prepared on a going concern basis. The company has incurred a loss after tax of £5,086,000 for the current year (2018 – £5,528,000) and has net current liabilities of £31,475,000 at the year end (2018 – £20,420,000) and relies upon the ongoing support of fellow subsidiaries, from which the company benefits from intercompany funding.

In light of the impact Covid-19 is expected to have on the cashflows and operations of the Company, the Company's ultimate shareholders, Welltower Inc and Revera Inc have confimed that they will continue to support the Company in order to allow it to satisfy its financial obligations in the normal course of business at least through to 30 September 2021.

The Directors are satisfied that Welltower Inc. has the ability to provide this support, should it be required and that there is no material risk that the Parent will be unable to provide financial support within a period of at least 12 months from the date of approval of the financial statements. Welltower is forecast to have sufficient liquidity through the going concern period even under its most downside forecast scenario and before any further mitigating actions it may take. On 31 July, 2020, Welltower had $1.3 billion of cash and cash equivalents and $3.0 billion of available borrowing capacity under its unsecured revolving credit facility and no material senior unsecured note maturities until 2023.

In addition, the Board of Directors of Welltower has authorized a share repurchase program whereby Welltower may repurchase up to $1 billion of common stock through December 31, 2021. Under this authorization, Welltower is not required to purchase shares, but may choose to do so in the open market or through private transactions at times and amounts based on our evaluation of market conditions and other factors.

Furthermore, Revera Inc., which also provides funding to the Company, has confirmed that it has implemented a policy whereby any of its subsidiary companies will not seek intercompany settlement unless the borrowing entity (including this company) has surplus working capital to enable repayment without adversely affecting its ability to settle its other liabilities as and when they fall due. Revera has the ability to provide this support, should it be required and there is no material risk that it will be unable to provide financial support within a period of at least 12 months from the date of approval of the financial statements. Revera is forecast to have sufficient liquidity through the going concern period even under its most downside forecast scenario and before any further mitigating actions it may take. Revera has several billions in assets and owns or operates more than 500 properties. It is a wholly owned subsidiary of PSP Investments, which has net assets under management of C$162bn as at 31 December 2019.

Given the continued parental support, the Directors of the Company deem it appropriate to prepare the financial statements on the going concern basis.

## Future developments

There are two remaining facilities that operate under the Gracewell brand that the directors had decided will also be consolidated into the Company, namely Gracewell of Frome and Gracewell of Sway. This happened on 1st February 2020.

## Engagement with employees

The Company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information, including information relating to the economic and financial factors affecting the performance of the company, has been continued through the quarterly "All Company Call" led by the CEO and senior management. Regular "Town Hall" meetings are held between local management and employees to share information and give recognition to employees. In addition the monthly "Your Voice" magazine covers news and employees views. Employees also take part in an annual engagement survey "Your voice counts".

## Disabled employees

The Company is committed to providing a workplace free of discrimination in any form, where everyone is treated with respect and dignity and where success is based solely on individual merit.

As an equal opportunities employer, the Company continually strives to develop an environment through which it can benefit from the widest possible range of knowledge, skills and experience. In order to provide applicants and team members with equal opportunities, processes and policies are regularly reviewed to ensure that individuals or groups (including disabled employees) are not unjustifiably disadvantaged.

Disability discrimination refers to less favourable treatment based on an individual's disability. An individual does not have to be registered as disabled to have this protected characteristic.

Ensuring equal opportunities for people living with disabilities may involve adjustments being made to the working environment or other employment arrangements to better accommodate the disability. These adjustments will be made wherever possible and within a reasonable time frame and may involve offering adjustments that are not available to people without a disability. Adjustments may include, but are not limited to, provision for specialist equipment and training, job redesign, retraining, flexible working and/or redeployment to a suitable alternative vacancy.

The prime responsibility for arranging appropriate adjustments will lie with the manager, who will consult at all times with team members. Where necessary, an outside specialist may be consulted with prior agreement.

## Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Auditors

Under section 487(2) of the Companies Act 2006, Ernst & Young LLP, Statutory Auditor will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 23 September 2020 and signed on its behalf.

DocuSigned by:
Justin Skiver
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J. Skiver
Director

**Independent Auditors' Report to the Members of Gracewell Healthcare 3 Limited**

## Opinion

We have audited the financial statements of Gracewell Healthcare 3 Limited (the 'Company') for the year ended 31 December 2019, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of matter – effects of COVID-19

We draw attention to Notes 1.3 and 18 of the financial statements, which describes the risks that economic and social disruption the company is facing as a result of COVID-19 which is impacting consumer demand and personnel available for work and or being able to access offices.

Our opinion is not modified in respect of these matters

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' Report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

James Hilditch (Senior Statutory Auditor)
for and on behalf of
**Ernst & Young LLP, Statutory Auditor**
London

25 September 2020

**Gracewell Healthcare 3 Limited**

## Statement of Comprehensive Income
## for the year ended 31 December 2019

| | Note | 2019<br>£000 | 2018<br>£000 |
|---|---|---|---|
| Turnover | 3 | **61,430** | 40,701 |
| Cost of sales | | **(40,672)** | (26,566) |
| **Gross profit** | | **20,758** | 14,135 |
| Administrative expenses | | **(30,324)** | (19,696) |
| Other operating income | 4 | **44** | 33 |
| **Operating loss** | 5 | **(9,522)** | (5,528) |
| Taxation | 8 | **4,436** | - |
| **Loss for the financial year** | | **(5,086)** | (5,528) |
| **Total comprehensive loss for the year** | | **(5,086)** | (5,528) |

All amounts relate to continuing activities.

**Gracewell Healthcare 3 Limited**
**Registered number:08210882**

**Statement of Financial Position**
**As at 31 December 2019**

| | Note | | 2019 £000 | | 2018 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 9 | | **3,818** | | 2,281 |
| **Current assets** | | | | | |
| Stocks | | **59** | | 62 | |
| Debtors: amounts falling due within one year | 10 | **12,067** | | 11,695 | |
| Bank and cash balances | | **433** | | 504 | |
| | | **12,559** | | 12,261 | |
| Creditors: amounts falling due within one year | 11 | **(44,034)** | | (32,681) | |
| **Net current liabilities** | | | **(31,475)** | | (20,420) |
| **Net liabilities** | | | **(27,657)** | | (18,139) |
| **Capital and reserves** | | | | | |
| Share premium account | 13 | | **1,385** | | 1,385 |
| Capital contribution | 13 | | **123** | | 123 |
| Transfer of businesses | 13 | | **(4,843)** | | (411) |
| Accumulated losses | 13 | | **(24,322)** | | (19,236) |
| | | | **(27,657)** | | (18,139) |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 23 September 2020.

DocuSigned by:
Justin Skiver
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**J. Skiver**
Director

**Gracewell Healthcare 3 Limited**

## Statement of Changes in Equity for the year ended 31 December 2019

| | Share premium account | Capital contribution | Transfer of businesses | Accumulated losses | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **At 1 January 2018** | **1,385** | **123** | **-** | **(13,708)** | **(12,200)** |
| Loss for the year | - | - | - | (5,528) | (5,528) |
| Movement on pooling of interest (note 17) | - | - | (411) | - | (411) |
| **At 1 January 2019** | **1,385** | **123** | **(411)** | **(19,236)** | **(18,139)** |
| Loss for the year | - | - | - | (5,086) | (5,086) |
| Movement on pooling of interest (note 17) | - | - | (4,432) | - | (4,432) |
| **At 31 December 2019** | **1,385** | **123** | **(4,843)** | **(24,322)** | **(27,657)** |

The notes on pages 14 to 28 form part of these financial statements.

## 1. Accounting policies

### 1.1 Basis of preparation

The Company transitioned from FRS101 to FRS 102 for all periods presented.

This change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied in accordance with FRS101. Consequently the principal accounting policies are unchanged from the prior year. The change in basis of preparation has allowed the Company to delay the adoption of IFRS 16 and not capitalise operating leases. The details of the Company's operating lease for the premises in which it operates is disclosed in note 16.

There have been no other material amendments to the disclosure requirements previously applied in accordance with FRS101.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Welltower Inc. as at 31 December 2019 and these financial statements may be obtained from the corporate headquarters at 4500 Dorr Street, Toledo, Ohio 43615-4040 or from the corporate website, www.welltower.com.

### 1.2 Authorisation of financial statements and statement of compliance with FRS 102

The financial statements of Gracewell Healthcare 3 Limited (the "Company") for the year ended 31 December 2019 were authorised for issue by the board of directors on 23 September 2020 and the Statement of Financial Position was signed on the board's behalf by J Skiver. Gracewell Healthcare 3 Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 102 Reduced Disclosure Framework (FRS 102) and in accordance with applicable accounting standards and legislation.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The principal accounting policies adopted by the Company are set out below.

## 1. Accounting policies (continued)

### 1.3 Going concern

The financial statements have been prepared on a going concern basis. The company has incurred a loss after tax of £5,086,000 for the current year (2018 – £5,528,000) and has net current liabilities of £31,475,000 at the year end (2018 – £20,420,000) and relies upon the ongoing support of fellow subsidiaries, from which the company benefits from intercompany funding.

In light of the impact Covid-19 is expected to have on the cashflows and operations of the Company, the Company's ultimate shareholders, Welltower Inc and Revera Inc have confirmed that they will continue to support the Company in order to allow it to satisfy its financial obligations in the normal course of business at least through to 30 September 2021.

The Directors are satisfied that Welltower Inc. has the ability to provide this support, should it be required and that there is no material risk that the Parent will be unable to provide financial support within a period of at least 12 months from the date of approval of the financial statements. Welltower is forecast to have sufficient liquidity through the going concern period even under its most downside forecast scenario and before any further mitigating actions it may take. On 31 July, 2020, Welltower had $1.3 billion of cash and cash equivalents and $3.0 billion of available borrowing capacity under its unsecured revolving credit facility and no material senior unsecured note maturities until 2023.

In addition, the Board of Directors of Welltower has authorized a share repurchase program whereby Welltower may repurchase up to $1 billion of common stock through December 31, 2021. Under this authorization, Welltower is not required to purchase shares, but may choose to do so in the open market or through private transactions at times and amounts based on our evaluation of market conditions and other factors.

Furthermore, Revera Inc., which also provides funding to the Company, has confirmed that it has implemented a policy whereby any of its subsidiary companies will not seek intercompany settlement unless the borrowing entity (including this company) has surplus working capital to enable repayment without adversely affecting its ability to settle its other liabilities as and when they fall due. Revera has the ability to provide this support, should it be required and there is no material risk that it will be unable to provide financial support within a period of at least 12 months from the date of approval of the financial statements. Revera is forecast to have sufficient liquidity through the going concern period even under its most downside forecast scenario and before any further mitigating actions it may take. Revera has several billions in assets and owns or operates more than 500 properties. It is a wholly owned subsidiary of PSP Investments, which has net assets under management of C$162bn as at 31 December 2019.

Given the continued parental support, the Directors of the Company deem it appropriate to prepare the financial statements on the going concern basis.

## 1. Accounting policies (continued)

### 1.4 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

**Rendering of services**

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

### 1.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Work in progress (WIP) represents expenditure on capital projects that have not yet been completed. On completion of a project the accumulated costs are added to the fixed asset register and depreciated.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

| | |
|---|---|
| Leasehold land & building improvements | - 5 years |
| Fixtures, fittings and equipment | - 3 - 10 years |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

## 1. Accounting policies (continued)

### 1.6 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

### 1.7 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in Statement of Comprehensive Income.

## 1. Accounting policies (continued)

### 1.8 Financial instruments

The company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The company's accounting policies in respect of financial instruments transactions are explained below:

**Financial assets**
The company classifies all of its financial assets as loans and receivables.

**Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

**Cash at bank and in hand**
Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

**Financial Liabilities**
The company classifies all of its financial liabilities as liabilities at amortised cost.

Financial liabilities at amortised cost are initially recognised at fair value plus any attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Statement of Financial Position.

## 1. Accounting policies (continued)

### 1.9 Pensions

**Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

### 1.10 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current and deferred tax are recognised in the Statement of Comprehensive Income, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## 1. Accounting policies (continued)

### 1.11 Pooling of interest

The "pooling of interest" method was adopted when the operations of the related companies were consolidated into the Company. An amount of consideration was paid by the Company to the company transferring its operations. Assets and liabilities were transferred at book value. Fixed assets were transferred at the cost and acummulated depreciation that they were held at in the transferring companies' books.

The pooling of interest method requires the difference between the consideration and the assets transferred to be treated as a contribution/distribution in the Company's books.

The financial impact of using this method is shown in note 17.

## 2. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

**Operating lease commitments**
The Company has entered into commercial property leases and obtains the use of property, plant and equipment. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

**Taxation**
Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 8.

## 3. Turnover

An analysis of turnover by class of business is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Operation of residential and nursing care facilities | **61,430** | 40,701 |

All turnover arose within the United Kingdom.

## 4. Other operating income

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Net rents receivable | **44** | 33 |

## 5. Operating loss

The operating loss is stated after charging/(crediting):

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Depreciation of tangible fixed assets | **747** | 307 |
| Defined contribution pension cost | **722** | 258 |
| Rent - building leases | **15,216** | 8,368 |
| Equipment leasing (operational) | **(214)** | 1,665 |
| Subcontract labour | **4,990** | 3,480 |
| Management fees | **3,692** | 2,456 |
| Other administration expenses | **10,312** | 6,814 |

## 6. Auditors' remuneration

Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements totalled £112,000 in the year.

In 2018 Gracewell Operations Holding Limited, the company's parent, incurred the overall audit fees on behalf of the company. These totalled £83,640 of fees payable to the Company's auditor for the audit of the Company.

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent Company.

## 7. Employees

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Wages and salaries | **30,360** | 19,753 |
| Social security costs | **2,766** | 1,819 |
| Cost of defined contribution scheme | **722** | 258 |
| | **33,848** | 21,830 |

The average monthly number of employees, including the directors, during the year was as follows:

| | 2019 No. | 2018 No. |
|---|---|---|
| Care assistants | **935** | 634 |
| Administration and other staff | **440** | 298 |
| | **1,375** | 932 |

During the year, no director received any emoluments (2018 - £NIL).

The directors received remuneration from related companies, as employees of those companies. They received no remuneration for their services as directors from Gracewell Healthcare 3 Limited.

## 8. Taxation

| | 2019 £000 | 2018 £000 |
|---|---|---|
| **Total current tax** | **-** | - |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **(4,436)** | - |
| **Taxation on loss on ordinary activities** | **(4,436)** | - |

## 8. Taxation (continued)

### Factors affecting tax credit for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Loss on ordinary activities before tax | **(9,522)** | (5,528) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%) | **(1,809)** | (1,051) |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | **32** | 12 |
| Effect of difference betwenn CT and DT rates | **-** | 110 |
| Change in unrecognised deferred tax asset | **(2,659)** | 929 |
| **Total tax credit for the year** | **(4,436)** | - |

### Deferred tax

At 31 December 2019, the company had a deferred tax asset of approximately £4,436,000 (2018 - £nil) calculated at a rate of 19% relating to post April 2017 trading tax losses carried forward and other timing differences of £23,356,000. In accordance with the company's accounting policy the deferred tax asset has been recognised in the financial statements since the directors forecast taxable profits will be available in the immediate future which will allow the timing differences to be recovered.

In addition, at 31 December 2019, the company had an unrecognised deferred tax asset of approximately £2,564,000 (2018 - £3,310,000) calculated at a rate of 19% (2018 - 17%) relating to trading tax losses carried forward and other timing differences of £13,494,000 (2018 - £19,473,000). In accordance with the company's accounting policy no deferred tax asset has been recognised in the financial statements in respect of these losses and timing differences due to uncertainty surrounding the timing of future taxable profits available for offset.

In March 2020, an increase in the future corporation tax rate applicable from 1 April 2020 to 19% was announced. The company's recognised and unrecognised deferred tax assets are calculated using this rate.

## 9. Tangible fixed assets

| | Leasehold land & building improvements £000 | Fixtures fittings and equipment £000 | Work in progress £000 | Total £000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2019 | 596 | 2,202 | 433 | 3,231 |
| Additions | 67 | 1,092 | 1,128 | 2,287 |
| Disposals | - | (27) | - | (27) |
| Transfers between classes | 145 | 273 | (418) | - |
| At 31 December 2019 | 808 | 3,540 | 1,143 | 5,491 |
| **Depreciation** | | | | |
| At 1 January 2019 | 142 | 808 | - | 950 |
| Charge for the year | 146 | 601 | - | 747 |
| Disposals | - | (24) | - | (24) |
| Transfers between classes | (30) | 30 | - | - |
| At 31 December 2019 | 258 | 1,415 | - | 1,673 |
| **Net book value** | | | | |
| At 31 December 2019 | 550 | 2,125 | 1,143 | 3,818 |
| At 31 December 2018 | 454 | 1,394 | 433 | 2,281 |

## 10. Debtors

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Trade debtors | 2,340 | 1,619 |
| Amounts owed by group undertakings | 1 | 1 |
| Amounts owed by related undertakings | 4,565 | 9,248 |
| Other debtors | 19 | 2 |
| Prepayments and accrued income | 706 | 825 |
| Deferred taxation (note 12) | 4,436 | - |
| | 12,067 | 11,695 |

Trade debtors are stated after provisions for impairment of £235,000 (2018 - £333,000).

## 11. Creditors: Amounts falling due within one year

| | 2019<br>£000 | 2018<br>£000 |
|---|---|---|
| Trade creditors | **1,633** | 1,014 |
| Amounts owed to group undertakings | **29,245** | 18,416 |
| Amounts owed to related undertakings | **6** | - |
| Other taxation and social security | **766** | 683 |
| Obligations under finance lease and hire purchase contracts | **-** | 16 |
| Other creditors | **138** | 130 |
| Accruals and deferred income | **12,246** | 12,422 |
| | **44,034** | 32,681 |

## 12. Deferred taxation

| | 2019<br>£000 |
|---|---|
| Credited to Statement of Comprehensive Income | **4,436** |
| **At end of year** | **4,436** |

The deferred tax asset is made up as follows:

| | 2019<br>£000 | 2018<br>£000 |
|---|---|---|
| Tax losses carried forward and other timing differences | **4,436** | - |

## 13. Reserves

**Accumulated losses**
The accumulated losses comprises the cumulative net gains and losses recognised in the statement of comprehensive income.

**Capital contribution reserve**
The capital contribution reserve comprises the cumulative contributions by the owners.

**Share premium reserve**
The share premium reserve comprises the cumulative additional consideration paid for shares above the nominal share value.

**Transfer of businesses**
The transfer of businesses amount arose when the assets of 7 facilities from related companies were consolidated with the company's operations. The amount represents the value of the assets transferred less any consideration paid.

## 14. Share capital

| | **2019** | 2018 |
|---|---|---|
| | **£** | £ |
| **Authorised, allotted, called up and fully paid** | | |
| 200 (2018 - 200) Ordinary shares shares of £1 each | **200** | 200 |

## 15. Pension commitments

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £722,000 (2018 - £258,000). Contributions totalling £123,000 (2018 - £70,000) were payable to the fund at the reporting date.

## 16. Commitments under operating leases

The Company has an operating lease for each care home premises it operates. The leases for the Edgbaston and Newmarket facilities are for 15 years. All the other leases are for 25 years. Rent charged under all of these leases was reviewed on 1 August 2018. The figures below reflect these revised rents. Further rent reviews will be on 1 August 2020 and every 3 years thereafter. Under each lease the Company has the option to take a further lease of the premises at the end of the current lease term.

At 31 December 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

| | **2019 £000** | 2018 £000 |
|---|---|---|
| Not later than 1 year | **15,216** | 15,216 |
| Later than 1 year and not later than 5 years | **60,865** | 60,865 |
| Later than 5 years | **227,864** | 243,080 |
| | **303,945** | 319,161 |

## 17. Pooling of interest

The financial impact to the Company from the transfers of business is shown in the table below.

| | **2019 £000** | 2018 £000 |
|---|---|---|
| Consideration paid | - | (3,275) |
| **Transfer of:** | | |
| Fixed assets | - | 1,185 |
| Cash | - | 13,252 |
| Stock | - | 21 |
| Debtors, prepayments & accrued income | - | 700 |
| Creditors, accruals & deferred income | - | (3,616) |
| Amounts owed to group undertakings | - | (1,081) |
| Amounts owed to related undertakings | **(4,432)** | (7,597) |
| | **(4,432)** | (411) |

The £4.4m shown in the current year is from the transfer of business in 2018. Some amounts owing to related undertakings were omitted from being transferred in error. This was corrected in the current year.

## 18. Subsequent events

The immediate impact of Covid-19 has consequently reduced the number of presentations "Show Rounds" of potential residents, meaning that move in numbers have reduced in the short term. The Company's resident numbers have reduced by 8% over the period February to May 2020.

The Company has taken steps to enable it to continue to provide the best care to its residents and protection for its team members by investing heavily in PPE for all who need it; increasing the hourly pay for April and May 2020; hiring a small minibus for staff using public transport; utilising the government furlough scheme for a very small number of staff who are shielding and not able to work where appropriate alongside offering a loan scheme for teams members financially impacted by the situation.

Some non-essential Capital expenditure projects have been deferred and the Company is taking a prudent and vigilant approach on all expenditure to offset any revenue shortfall due to the limited move in opportunities. Debtors collections have not been adversely affected by the situation.

## 19. Ultimate parent undertaking and controlling party

The Company is a subsidiary undertaking of Gracewell Operations Holding Limited a Company incorporated in England and Wales. The directors consider Welltower Inc., a Company registered and incorporated in the United States of America, to be the ultimate parent and controlling party.

At the year end, the parent undertaking of the largest and smallest group for which group financial statements were prepared was Welltower Inc., whose group accounts can be obtained from the corporate headquarters at 4500 Dorr Street, Toledo, Ohio 43615–4040 or from the corporate website, www.welltower.com.