Debtors will be repaid their £780m in full, thanks to £825m investment by Guy Hands' fund

Terra Firma deal spells end to storms for Four Seasons

Assuming the deal goes through by the 16 July deadline, Terra Firma's £825m purchase of Four Seasons, announced last month, will bring the saga surrounding the care home group and its £780m of debt to a close.

It has been a high-profile story featuring leveraged buyouts, sovereign wealth, hedge funds, banks and private equity groups. Along the way, two private equity groups – Alchemy and Allianz Capital Partners – made big profits and banks, notably Royal Bank of Scotland, wrote off big bucks (see timeline below).

The deal is good news for Four Seasons bondholders and special servicer Hatfield Philips, advised by Brookland Partners and LNR. When it is completed, the group's debt will be discharged in full.

This means the CMBS bondholders can be repaid their £595.3m principal, plus unpaid accrued interest. Another £125m of unsecuritised junior debt will also be repaid. Royal Bank of Scotland – Four Seasons' biggest shareholder, with a 38% stake thanks to the debt-for-equity swap agreed in 2009 – will retain a small stake.

Terra Firma, the private equity group headed by Guy Hands, is putting around £255m into the deal, the last investment for its €5.4bn fund raised in 2007. The *Financial Times* reported that the Four Seasons deal was agreed just days ahead of a spending deadline imposed by Terra Firma's investors.

Hands: "By investing new equity, Four Seasons' debt has been substantially reduced and Terra Firma has brought stability to the company"

Bringing stability and reducing debt

"By investing new equity, Four Seasons' debt has been substantially reduced and Terra Firma has brought stability to the company," said Hands.

Four Seasons, the UK's biggest private healthcare provider, operates 445 care homes plus 61 hospitals. The nursing home sector is under pressure as cash-strapped councils cut care fees and reduce placements in private facilities.

However, the long-term demographic factors supporting the sector are attracting private equity groups such as Terra Firma, which had been in the running to buy Four Seasons from Allianz Capital in 2006.

Four Seasons is trading profitably, with earnings before interest, taxation, depreciation and amortisation having grown 4% to £101.3m in 2011. And unlike Southern Cross, which collapsed last year because it could not pay its rents, Four Seasons owns around 60% of its facilities. It has also negotiated flexible rents with some of its landlords.

The debt for the deal – around £725m – is being arranged by Barclays and Goldman Sachs, implying leverage of 5.2 times. This debt is likely to be in the form of bonds, a structure used successfully in two recent opco/propco financings (see February issue).

In February, Blackstone refinanced its leisure village business Centre Parcs' £1.02bn debt via a CMBS, while Advent used a £600m bond to finance its purchase of the Priory rehab and care group in January 2011.

Both of these had two tranches; the Priory's both higher-yielding, and Centre Parcs' combining a higher-yielding B note. The latter is paying 11.625% – if Terra Firma followed this path, its debt would be costly.

"It will probably be a whole-business securitisation, just issuing senior debt," says Alex Rubino, an analyst at Chalkhill. "I don't think it could achieve as much leverage as Centre Parcs or Priory."

Timeline: from Alchemy's "best deal" to Three Delta's nightmare

1989 Four Seasons healthcare business founded by Robert Kilgour.

1999 Private equity house Alchemy Partners buys Four Seasons and CrestaCare for around £133m and merges them.

2002 Four Seasons buys Omega Worldwide and Principal Healthcare Finance for £313m; Alchemy provides £25m and Barclays Leveraged Finance provides the debt.

2004 Alchemy sells Four Seasons to Allianz Capital Partners, part of the German insurer, for £775m, reportedly booking a £247m profit. "Our best deal was Four Seasons nursing homes – where we made more than four times the investment of £75m," said Alchemy chief Jon Moulton.

2006 Qatari-backed Three Delta, headed by former NatWest head of structured finance Paul Taylor, pays Allianz £1.4bn for the healthcare business. The deal is highly (12X) leveraged, with Credit Suisse providing £1.2bn of bridging finance expiring in Sept 2008: £600m of this debt is securitised by Credit Suisse as Titan Europe 2006-4 CMBS. An additional £235m of mezzanine debt is structured as payment-in-kind notes.

Sept 2008 Three Delta is unable to refinance £1.24bn of debt maturing; the lenders take over and agree a standstill to work out a restructuring. The CMBS loan defaults and goes into special servicing.

Dec 2009 After 15 months of talks, £1.4bn of debt is restructured: around half the unsecuritised debt is swapped for equity, leaving Four Seasons with £723m of senior loans: £598m in the CMBS and a £125m subordinated borrowing, maturing September 2010. Royal Bank of Scotland ends up with a 38% stake.

Sept 2010 Loan and note maturities are extended to September 2012 and 2014 respectively and margins increased, but offset by a new swap.

April 2012 Terra Firma agrees to buy Four Seasons for £825m.