LISTED AGED CARE PROVIDERS FINANCIAL PERFORMANCE ANALYSIS

For the year ended 30 June 2019

StewartBrown

Integrity + Quality + Clarity

Introduction

This analysis of listed aged care providers' financial performance for the year ended 30 June 2019 focuses solely on the three listed providers. It is intended as a timely snapshot and commentary on the listed providers' financial and operational results.

Sector results for June 2019, including the sector analysis, will be made available in the forthcoming StewartBrown *Aged Care Financial Performance Survey (ACFPS)* Report. Although the main focus of the StewartBrown ACFPS is financial performance at the *aged care home* and *home care* segment levels, the report also include the *approved provider* (organisation) level financial performance and related trend analysis. This allows a better comparison to the listed entity results (which are also at organisation level). If you would like to be added to our email list to be notified when this report is available, please contact benchmark@stewartbrown.com.au.

Disclaimer

This Listed Provider Analysis ("Analysis") has been prepared by StewartBrown. The sole purpose of the Analysis is to review the financial performance of the listed aged care providers for the year ended 30 June 2019.

This Analysis is based on public disclosure information made available by the listed aged care providers. For the purposes of this Analysis, StewartBrown has not performed an audit on the financial data and accordingly has solely relied on the public disclosure information and certain other external documentation as appropriate. This Analysis should not be relied upon by any party for any purpose other than for which it has been written.

In preparing this Analysis, StewartBrown relied upon and assumed, without independent verification, the accuracy, completeness and reasonableness of all information available from public disclosure statements or which was provided by or on behalf of the listed aged care providers or which was otherwise reviewed by StewartBrown. While we make every effort to ensure that material in this analysis is accurate and up to date, such material does not in any way constitute the provision of professional advice.

Table of Contents

1. Brief Commentary 1
2. Headline Financial Results 2
3. Occupancy and Supported resident ratio 6
4. Operational Places 7
5. Government Subsidy Revenue (ACFI & Accommodation) 8
6. Staff costs 9
7. EBT and EBITDA 10
8. Cash Flows 14
9. Depreciation 15
10. Accommodation Analysis 16
11. Market Capitalisation 17
12. Summary Tables 18
11. Reconciliations of EBITDA Calculations 19
12. Glossary 21

Brief Commentary

Overall

In the last quarter of FY19, the Federal Government released an additional funding package for residential aged care which took the form of a one-off subsidy. It was an effective (non-discriminatory) 9.5% increase on the basic ACFI, RCS and respite subsidies for the period 20 March 2019 to 30 June 2019. We have presented the FY19 results both with and without the additional funding subsidy and Royal Commission costs.

For the three listed providers, operating revenue has increased by an average of 8.3% for the year to June 2019. This includes the Federal Government additional funding package for residential aged care. This one-off subsidy amounted to: Estia received $10.3m, Japara $7.9m and Regis $10.8m.

This additional subsidy has positively affected the FY19 financial performance for three aged care listed providers, lifting Government revenue by an average of $5.18 per occupied bed day (pbd). It will not, however, affect the FY20 forecasts due to the nature of the subsidy. The *adjusted* analysis and commentary in this report focus on the results excluding the additional funding subsidy and Royal Commission costs.

If the additional funding is excluded from operating revenue the average revenue growth declines from 8.3% to 6.4%; this growth is a reflection of the increase in subsidy rates (COPE indexation), together with the overall number of aged care beds (and occupied bed days) in the portfolio of each of the entities.

The return on revenues has declined in line with sector trends due to increases in direct care costs, including compliance costs, that are higher than the underlying growth in revenues.

Other items of note:-

- As in prior periods, Estia and Regis continue to report net tangible liabilities, and there may be an increased focus on this given the discussion as to ongoing value of bed licences
- Equity has remained steady over the 12-month period for each of the entities
- Liquid cash assets as a proportion of borrowings has decreased for Japara and Regis. This means that there may be an increased reliance on RAD cashflow and RAD uplifts, or further utilising of credit facilities may be required for capital refurbishment, new development and repayment of resident liabilities

Headline Financial Results *(including FY19 Q4 additional funding)*

The three listed providers recently reported their financial results for the year to 30 June 2019. The following table gives a snapshot analysis of the results.

Table 1: Snapshot analysis of the aged care listed providers as at 30 June 2019 and 30 June 2018 – figures including the additional funding subsidy

	ESTIA	**ESTIA**	**JAPARA**	**JAPARA**	**REGIS**	**REGIS**
	Jun-19	**Jun-18**	**Jun-19**	**Jun-18**	**Jun-19**	**Jun-18**
Financial Performance	**$'000,000**	**$'000,000**	**$'000,000**	**$'000,000**	**$'000,000**	**$'000,000**
Earnings before tax (EBT)*	57.8	56.7	18.8	18.0	60.4	75.7
Operating revenue*	586.0	546.9	394.9	361.5	646.9	594.0
EBITDA*	95.7	90.0	48.2	47.0	109.5	116.0
Balance Sheet						
Total assets	1,894.8	1,823.9	1,378.6	1,268.6	1,792.9	1,758.7
Equity**	761.5	761.6	532.1	533.8	178.6	180.4
Net tangible assets (liabilities)	(278.1)	(274.2)	37.3	42.4	(301.0)	(298.0)
Cash and financial assets (liquid)	14.6	11.2	31.5	29.2	0.0	7.8
Resident debt	806.3	792.9	554.6	509.3	1126.9	989.2
External debt	125.0	75.0	210.5	145.5	303.1	411.6
Key Ratios						
Occupancy rate	93.6%	94.2%	92.9%	93.2%	92.7%	93.4%
Staff costs (% operating revenue)	66.0%	65.9%	70.3%	71.6%	69.3%	66.9%
Liquid cash assets as % of debt (resident + external)	1.6%	1.3%	4.3%	4.6%	0.0%	0.6%
EBT						
- % of operating revenue	9.9%	10.4%	4.8%	5.0%	9.3%	12.7%
- return on equity (ROE)	7.6%	7.4%	3.5%	3.4%	33.7%	41.6%
- return on total assets (ROA)	3.1%	4.4%	1.4%	2.0%	3.4%	7.8%
- return on net tangible assets	(20.9%)	(20.6%)	47.2%	31.4%	(20.2%)	(27.0%)
EBITDA						
- as % of operating revenue	16.3%	16.4%	12.2%	13.0%	16.9%	19.5%
- return on equity (ROE)	12.6%	11.8%	9.0%	8.8%	61.0%	63.7%
- return on total assets (ROA)	5.1%	7.0%	3.6%	5.2%	6.2%	11.9%
- return on net tangible assets	(34.6%)	(32.8%)	121.0%	82.0%	(36.6%)	(41.4%)

** Refer to section on EBT and EBITDA or glossary for definitions*
*** Equity includes goodwill and other intangibles*

Commentary on Results *(including FY19 Q4 additional funding)*

Estia

- EBT excluding non-operating income is $57.8m (Jun-19) and represents a 2.0% improvement compared to Jun-18
- EBITDA of $95.7m (Jun-19) is an increase of 6.4% compared to the same period last year
- Average occupancy decreased slightly from 94.2% (Jun-18) to 93.9% (Jun-19)
- EBT return on assets employed (ROA) decreased to 3.1% (Jun-19) compared to 4.4% (Jun-18)
- EBT as percentage of operating revenue decreased to 9.9% (Jun-19) from 10.4% (Jun-18)
- EBITDA margin as percentage of operating revenue decreased slightly to 16.3% (Jun-19) from 16.4% (Jun-18)
- Staff costs have remained stable as a percentage of operating revenue at 66%
- Net tangible <u>liabilities</u> has increased by $3.9m from $274.1m (Jun-18) to $278.1m (Jun-18)

Japara

- EBT excluding non-operating income is $18.8m (Jun-19), which is a 4.4% reduction compared to Jun-18 largely due to “development activities with higher depreciation and net interest expense incurred on completed developments”
- EBITDA of 48.2m (Jun-19) is an increase of 2.6% from Jun-18
- Average occupancy of 92.9% is a slight decrease from Jun-18’s 93.2%
- EBT return on assets employed (ROA) has reduced to 1.4% (Jun-19) compared to 2.0% (Jun-18)
- EBT as percentage of operating revenue decreased from 5.0% (Jun-18) to 4.8% (Jun-19)
- EBITDA margin as percentage of operating revenue decreased from 13.0% (Jun-18) to 12.2% (Jun-19)
- Staff costs have reduced as a percentage of operating revenues when compared to Jun-18
- Net tangible <u>assets</u> has decreased by 12.1% to $37.3m compared to the same period last year

Regis

- EBT excluding non-operating income $60.4m (Jun-19) is a 20.2% reduction compared to Jun-18 due to revenue “uplift from growth and COPE increase offset by Federal Government funding cuts and associated expenses, Enterprise Agreement increases & Occupancy”
- EBITDA of $109.5m (Jun-19) is a reduction of 5.6% compared to Jun-18
- Average occupancy of 92.7% (Jun-19) is slightly lower compared to 93.4% (Jun-18)
- EBT return on assets employed (ROA) decreased from 7.8% (Jun-18) to 3.4% in Jun-19
- EBT as percentage of operating revenue decreased from 12.7% (Jun-18) to 9.3% (Jun-19)
- EBITDA margin as a percentage of operating revenue decreased from 19.5% (Jun-18) to 16.9% (Jun-19)
- Staff costs as a percentage of operating revenue have increased to 69.3% (Jun-19) from 66.9% (Jun-18) reflecting EBA increases for the year which are higher than the COPE increase on ACFI revenues and higher staff costs to revenue % in the ramping up of new facilities
- Liquid cash assets as % of debt have fallen to 0.0% as Regis had no cash and liquid assets as at 30 June 2019
- Net tangible <u>liabilities</u> increased by 1.0% to $301.0m compared to Jun-18

Headline Financial Results *(excluding FY19 Q4 additional funding)*

The following table gives a snapshot analysis as at 30 June 2019 of the results excluding the impact of the additional subsidy funding received for Q4

Table 2: Snapshot analysis of the aged care listed providers as at 30 June 2019 and 30 June 2018 – figures excluding the additional funding

	ESTIA	ESTIA	JAPARA	JAPARA	REGIS	REGIS
	Jun-19	**Jun-18**	**Jun-19**	**Jun-18**	**Jun-19**	**Jun-18**
Financial Performance	**$’000,000**	**$’000,000**	**$’000,000**	**$’000,000**	**$’000,000**	**$’000,000**
Adjusted Earnings before tax (EBT) *	49.2	56.7	12.7	18.0	51.6	75.7
Adjusted Operating revenue*	575.6	546.9	387.0	361.5	636.1	594.0
Adjusted EBITDA*	85.4	90.0	40.3	47.0	98.7	116.0
Balance Sheet						
Total assets	1,894.8	1,823.9	1,378.6	1,268.6	1,792.9	1,758.7
Equity**	761.5	761.6	532.1	533.8	178.6	180.4
Net tangible assets (liabilities)	(278.1)	(274.2)	37.3	42.4	(301.0)	(298.0)
Cash and financial assets (liquid)	14.6	11.2	31.5	29.2	0.0	7.8
Resident debt	806.3	792.9	554.6	509.3	1126.9	989.2
External debt	125.0	75.0	210.5	145.5	303.1	411.6
Key Ratios						
Occupancy rate	93.6%	94.2%	92.9%	93.2%	92.7%	93.4%
Staff costs (% operating revenue)	67.2%	65.9%	71.7%	71.6%	70.4%	66.9%
Liquid cash assets as % of debt (resident + external)	1.6%	1.3%	4.3%	4.6%	0.0%	0.6%
Adjusted EBT						
- % of adjusted operating revenue	8.5%	10.4%	3.3%	5.0%	8.1%	12.7%
- return on equity (ROE)	6.5%	7.4%	2.4%	3.4%	28.8%	41.6%
- return on total assets (ROA)	2.6%	4.4%	1.0%	2.0%	2.9%	7.8%
- return on net tangible assets	(17.8%)	(20.6%)	31.9%	31.4%	(17.2%)	(27.0%)
Adjusted EBITDA						
- as % of adjusted operating revenue	14.8%	16.4%	10.4%	13.0%	15.5%	19.5%
- return on equity (ROE)	11.2%	11.8%	7.6%	8.8%	55.0%	63.7%
- return on total assets (ROA)	4.6%	7.0%	3.0%	5.2%	5.6%	11.9%
- return on net tangible assets	(30.9%)	(32.8%)	101.2%	82.0%	(33.0%)	(41.4%)

** Refer to section on EBT and EBITDA or glossary for definitions*
*** Equity includes goodwill and other intangibles*

Commentary on results *(excluding FY19 Q4 additional funding)*

Estia

- Estia received **$10.3m** in additional funding, and Royal Commission costs for the period totalled **$1.7m**, resulting in a net lower adjusted EBT $49.2m (Jun-19)
- Compared to Jun-18 EBT of $56.7m, this represents a 13.2% reduction
- Adjusted EBITDA of $85.4m (Jun-19) is a decrease of 4.5% compared to the same period last year
- Adjusted EBT return on assets employed (ROA) decreased to 2.6% (Jun-19) compared to 4.4% (Jun-18)
- Adjusted EBT as percentage of operating revenue decreased to 8.5% (Jun-19) from 10.4% (Jun-18)
- Adjusted EBITDA margins as percentage of operating revenue decreased to 14.8% (Jun-19) from 16.4% (Jun-18)
- Staff costs as a percentage of operating revenue have increased by 1.3% from 65.9% (Jun-18) to 67.2% (Jun-19) due to “the costs of sustaining quality care and support, the costs of EBA increases and higher compliance costs”

Japara

- Japara received **$7.9m** in additional funding, and Royal Commission costs for the period totalled **$1.8m**, resulting in a net lower adjusted EBT $12.7m (Jun-19)
- Compared to Jun-18 EBT of $18.0m, this represents a 29.5% reduction
- Adjusted EBITDA of 40.3m (Jun-19) is a decrease of 14.2% from Jun-18
- Adjusted EBT return on assets employed (ROA) has fallen to 1.0% (Jun-19) compared to 2.0% (Jun-18)
- Adjusted EBT as percentage of operating revenue decreased from 5.0% (Jun-18) to 3.3% (Jun-19)
- Adjusted EBITDA margin as percentage of operating revenue decreased from 13.0% (Jun-18) to 10.4% (Jun-19)
- Staff costs have remained fairly stable compared to Jun-18 at 71.7% of operating revenue

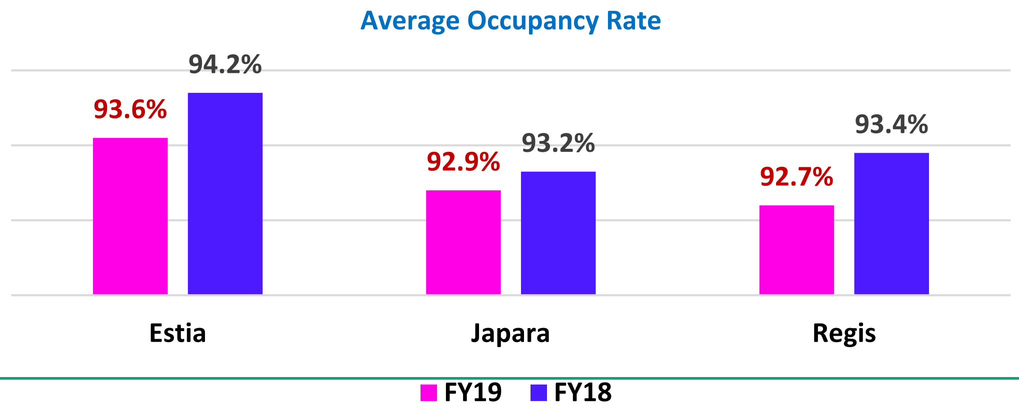
Regis

- Regis received **$10.38** in additional funding, and Royal Commission costs for the period totalled **$2.0m**, resulting in a net lower adjusted EBT $51.6m (Jun-19)
- Compared to Jun-18 EBT of $75.7m, this is 31.8% reduction
- Adjusted EBITDA of $98.7m (Jun-19) is a reduction of 14.9% compared to Jun-18
- Adjusted EBT return on assets employed (ROA) decreased from 7.8% (Jun-18) to 2.9% in Jun-19
- Adjusted EBT as percentage of operating revenue decreased from 12.7% (Jun-18) to 8.1% (Jun-19)
- Adjusted EBITDA margin as a percentage of operating revenue decreased from 19.5% (Jun-18) to 15.5% (Jun-19)
- Staff costs as a percentage of operating revenue have increased to 70.4% (Jun-19) from 66.9% (Jun-18) reflecting EBA increases for the year which are higher than the COPE increase on ACFI revenues and higher staff costs to revenue % in the ramping up of new facilities

Occupancy and Supported Resident Ratio

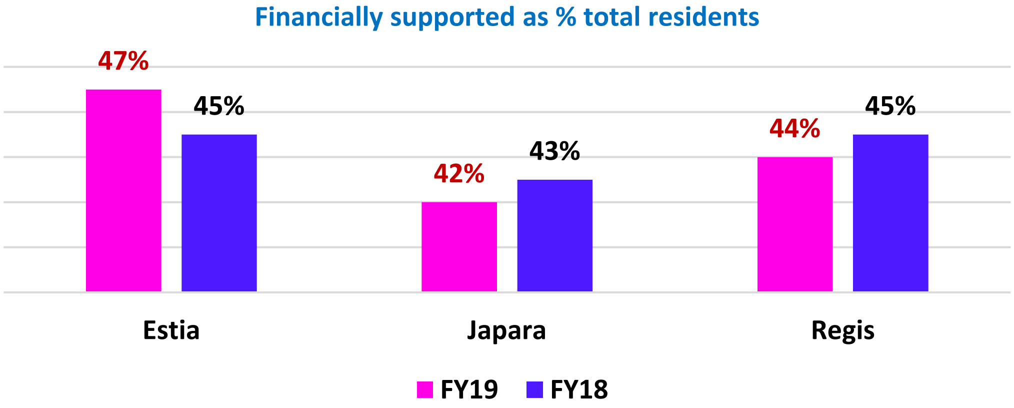
- ***Estia*** occupancy fell by 0.6% to 93.6%
- ***Japara*** average occupancy decreased slightly to 92.9% from 93.2% for FY18, which Japara attributes as "impacted by the Royal Commission"
- ***Regis*** average occupancy fell by 0.7% from 93.4% to 92.7% due to ramping up of new facilities and "facilities impacted by industry wide occupancy headwinds"

Figure 1: Average occupancy rates for the periods ending Jun-19 and Jun-18



- ***Estia*** experienced an increase in the Supported Resident Ratio from 45% to 47% in line with sector trends
- ***Japara*** however experienced a slight decline in the percentage of financially supported residents from 43% to 42%
- ***Regis*** also experienced a slight decline in the percentage of financially supported residents

Figure 2: Supported Resident Ratio as at Jun-19 and Jun-18



Operational Places

The number of operational places continues to increase as the listed providers complete new homes and refurbishments.

Estia

- Opening of **1 new home in FY19**
- Investment of $47.0m in new homes at Southport (Qld) with 110 beds and at Maroochydore (Qld) with 126 beds (opened in late August)
- New homes at St Ives (NSW), and Wollongong (NSW) expected to be completed in 2021
- Contract executed to acquire 108 licences and a new greenfield site in the Maitland (NSW) region
- $15.5m spent on **significant refurbishment in the period for 13 homes** (1,105 beds)
- Further $40-$50m significant refurbishment planned in FY20 for 3 aged care homes

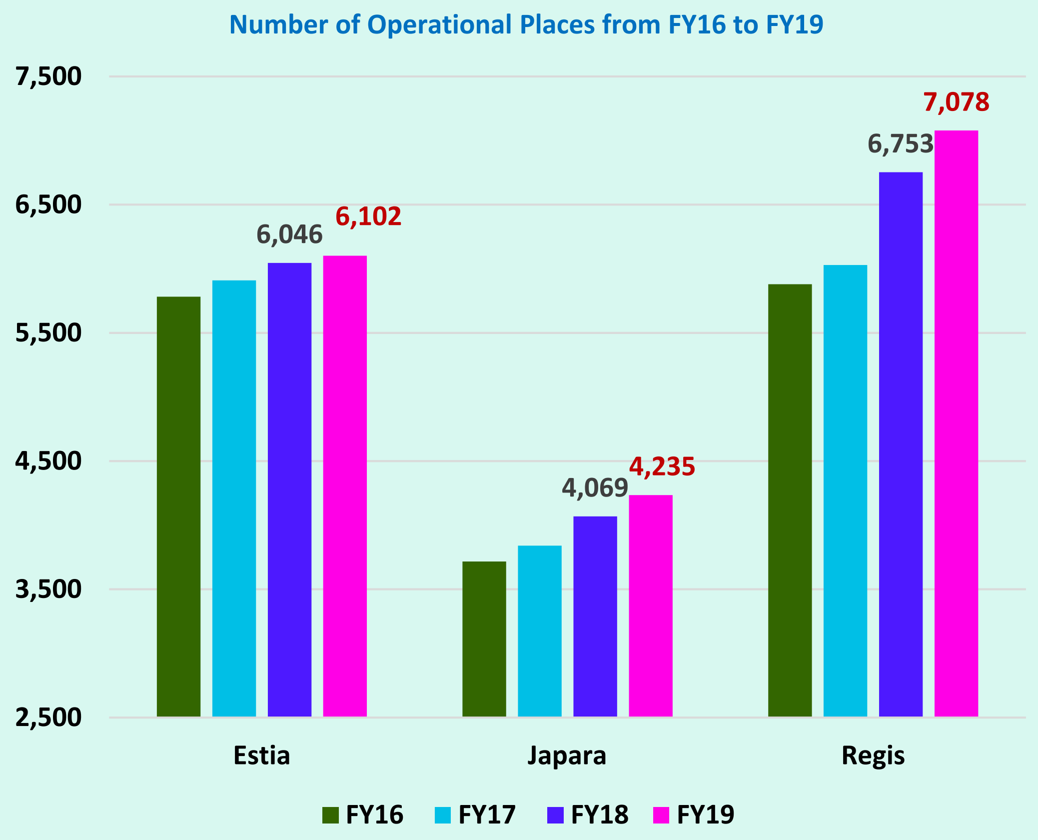
Japara

- Opening of **3 new homes in FY19** totalling 219 places (Glen Waverly (Vic), Brighton-Le-Sands (NSW) and Rye (Vic))
- 2 new homes under construction totalling 165 places (Mount Waverly and Newport)
- Planning approvals for several developments – Belrose (105 places) and Newport (60 places)
- Extensions completed in two homes totalling 84 places
- **6 homes significantly refurbished in FY19** and further 6 expected in FY20
- $99.4m net expenditure on development pipeline comprising predominantly land acquisitions and construction

Regis

- Reflects delivery of **3 new homes in FY19** at Port Coogee (WA), Elermore Vale (NSW) and Lutwyche (QLD)
- **7 homes significantly refurbished in FY2019** with further 3 expected in 1HFY20
- Total capital expenditure of $68.7m on development, significant refurbishment and other projects
- A development pipeline with approximately 600 new places

Figure 3: Operational places trend



Government Subsidy Revenue (ACFI and Accommodation)

Table 3: Government subsidy revenue per occupied bed day for the periods ending Jun-19 and Jun-18

KPI	ESTIA			JAPARA			REGIS		
	Jun-19	Jun-18	Jun-19 vs Jun -18	Jun-19	Jun-18	Jun-19 vs Jun -18	Jun-19	Jun-18	Jun-19 vs Jun -18
Average total Government revenue per occupied bed day	$212.31	$197.30	↑	$206.78	$198.45	↑	$203.87	$198.00	↑
Additional Federal Government funding subsidy per occupied bed day*	$5.01	n/a		$5.68	n/a		$4.87	n/a	
Average Government revenue excluding the additional funding subsidy per occupied bed day	**$207.30**	**$197.30**	↑	**$201.10**	**$198.45**	↑	**$199.00**	**$198.00**	↑

** Taken from the investor presentations either as $pbd figure or calculated using the implied occupied bed days and the $ figure for the additional funding subsidy received.*

Government subsidy revenue comprising ACFI (the level of government funding received as determined by the funding instrument), accommodation and other supplements (including the one-off additional Federal Government funding subsidy primarily received in the last quarter of FY19) contributes between 70% and 75% of operating revenues. Each provider presents summary financial data on Government revenue and significant expenditure categories, such as staff costs, on an occupied bed day basis.

All three listed providers have seen an increase in Government revenue per occupied bed day. Excluding the additional Government funding subsidy, Estia has seen an increase of 2.5% growth in Government revenue for the year, Japara an increase of 1.3% while Regis has seen a slight increase of 0.5%.

- ***Estia*** experienced an increase of $15.01 pbd in total Government revenue of which $5.01 is due to the additional funding subsidy. Estia attributes the remaining $10.00 increase to “the partial re-introduction of ACFI indexation, and contributions from the higher accommodation supplements at refurbished homes”
- ***Japara*** experienced an $8.33 pbd increase in total Government revenue of which $5.68 is due to the additional funding subsidy. The remaining $2.65 is likely due to the ACFI indexation and significant refurbishments
- ***Regis*** experienced an $5.87 pbd increase in total Government revenues which mostly consisted of the one-off additional Government funding subsidy ($4.87)

Staff Costs

Table 4: Staff costs as % of operating revenue for the periods ending Jun-19 and Jun-18

KPI	ESTIA			JAPARA			REGIS		
	Jun-19	Jun-18	Jun-19 vs Jun -18	Jun-19	Jun-18	Jun-19 vs Jun -18	Jun-19	Jun-18	Jun-19 vs Jun -18
Staff costs as % of operating revenue	66.0%	65.9%	↑	70.3%	71.6%	↓	69.3%	66.9%	↑
Staff costs as % of adjusted operating revenue (excluding additional funding)	67.2%	65.9%	↑	71.7%	71.6%	↑	70.4%	66.9%	↑

Staff costs are the most significant of all expenses that aged care operators incur. As a percentage of adjusted operating revenue (excluding the additional subsidy funding) all three providers experienced an increase in staff costs.

- ***Estia's*** staff costs as a percentage of operating revenue have increased by 1.3% of adjusted operating revenue, which Estia notes "reflect[s] the costs of sustaining quality care and support, the costs of EBA increases and higher compliance costs"
- ***Japara's*** staff costs as a percentage of operating revenue have remained fairly steady at 71.5%
- ***Regis*** experienced an increase of 3.5% in staff costs as a percentage of operating revenue due to EBA increases for the year which are higher than the COPE increase, as well as the higher staff costs attributable to the commissioning and ramp-up periods for new facilities

EBT and EBITDA

Table 5: EBT and EBITDA per resident per annum for the periods ending Jun-19 and Jun-18

KPI	ESTIA			JAPARA			REGIS		
	Jun-19	**Jun-18**		**Jun-19**	**Jun-18**		**Jun-19**	**Jun-18**	
EBT per resident per annum	$9,471	$9,375	↑	$4,442	$4,429	↑	$8,537	$11,209	↓
EBITDA per resident per annum	$15,681	$14,880	↑	$11,387	$11,548	↓	$15,476	$17,177	↓
Adjusted EBT per resident per annum	$8,059	$9,375	↓	$3,002	$4,429	↓	$7,294	$11,209	↓
Adjusted EBITDA per resident per annum	$13,988	$14,880	↓	$9,521	$11,548	↓	$13,950	$17,177	↓

The sector primarily uses EBITDA as a measure of an organisation's operating performance. EBITDA is defined as earnings before interest, tax, depreciation and amortisation. Essentially, it is a way to evaluate an organisation's performance without having to factor in financing decisions, accounting depreciation decisions or tax environments.

We refer to several different EBITDA calculations in this report. They are:

- Statutory EBITDA is that calculated from the financial statements of the provider – it is calculated as NPAT + net finance costs + tax + depreciation and amortisation – interest income
- Normalised EBITDA is the Statutory EBITDA adjusted for one-off revenue and expenses such as acquisition-related costs, increase in fair value of investment property, net gain/discount on acquisition and on disposal of non-current assets, these adjustments being taken from the investor reports
- StewartBrown EBITDA is the Statutory EBITDA adjusted for other non-operating revenue and for one-off expenses; unless otherwise specified all EBITDA references in this report relate to the StewartBrown calculation of EBITDA
- Adjusted EBITDA is the StewartBrown EBITDA further adjusted for the one-off Federal Government funding subsidy in FY19

The limitation of the EBITDA measure is that it doesn't consider depreciation, and, as this is a significant expense for residential aged care facilities, we consider that EBT (earnings before tax) should also be given equal consideration when assessing overall financial performance. EBT is net profit before tax as reported by the listed entities – StewartBrown further adjusts this to exclude other non-operating income. Adjusted EBT excludes the one-off additional funding and the Royal Commission costs in FY19.

EBT and EBITDA

Calculation of EBITDA per bed per annum is based on the StewartBrown EBITDA divided by the number of operational places *(figures obtained for this calculation are sourced from the listed entities' presentations to the market)*. The same approach is taken for the EBT per bed per annum and Adjusted EBT and Adjusted EBITDA per bed per annum figures.

Table 6a: EBT and EBITDA per bed per annum calculation

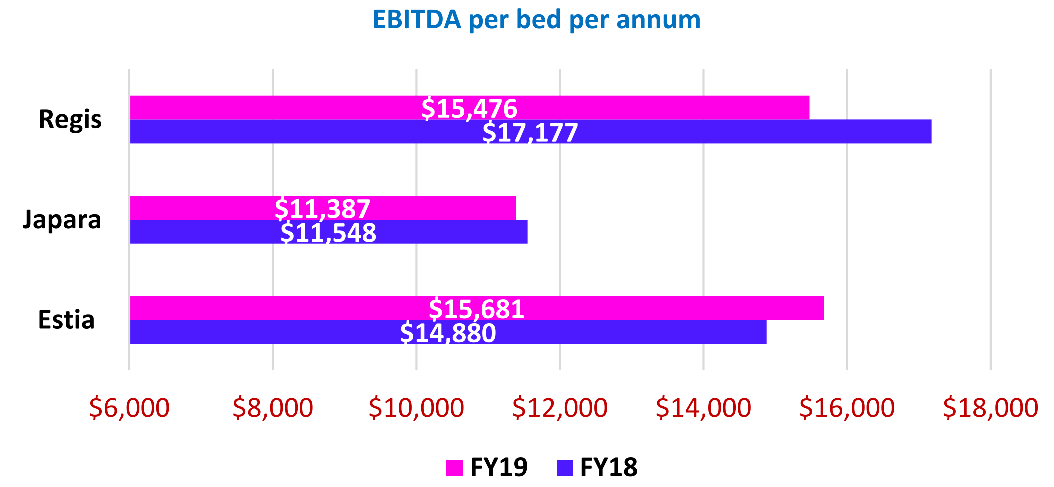
Listed Entity	Period	EBT ($m)	EBITDA ($m)	No. of operational places *(as published)*	EBT per bed per annum *(calculated)*	EBITDA per bed per annum *(calculated)*
ESTIA	FY19	57.8	95.7	6,102	9,471	15,681
ESTIA	FY18	56.7	90.0	6,046	9,375	14,880
JAPARA	FY19	18.8	48.2	4,235	4,442	11,387
JAPARA	FY18	18.0	47.0	4,069	4,429	11,548
REGIS	FY19	60.4	109.5	7,078	8,537	15,476
REGIS	FY18	75.7	116.0	6,753	11,209	17,177

Table 6b: Adjusted EBT and EBITDA per bed per annum calculation

Listed Entity	Period	Adjusted EBT ($m)	Adjusted EBITDA ($m)	No. of operational places *(as published)*	Adjusted EBT per bed per annum (calculated)	Adjusted EBITDA per bed per annum (calculated)
ESTIA	FY19	49.2	85.4	6,102	8,059	13,988
ESTIA	FY18	56.7	90.0	6,046	9,375	14,880
JAPARA	FY19	12.7	40.3	4,235	3,002	9,521
JAPARA	FY18	18.0	47.0	4,069	4,429	11,548
REGIS	FY19	51.6	98.7	7,078	7,294	13,950
REGIS	FY18	75.7	116.0	6,753	11,209	17,177

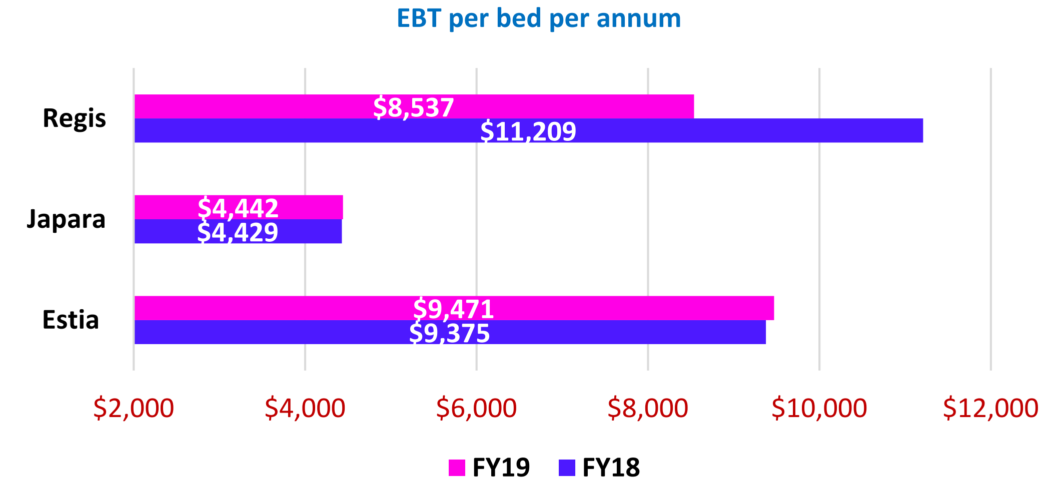
EBT and EBITDA *(including FY19 Q4 additional funding)*

Figure 4: EBITDA per bed per annum



- The EBITDA per bed per annum (pbpa) has increased by $802 pbpa for Estia in line with the slightly higher profitability mostly due to the one-off Government additional funding subsidy
- Japara has maintained a fairly similar EBITDA pbpa in FY19 with only a slight decrease of $161 per bed per annum compared to FY18
- The EBITDA pbpa has decreased for Regis by $1,701 pbpa despite receiving the additional funding of $10.8m. This decrease is due to the decline in profitability in the steady-state facilities with lower occupancy; underlying cost increases of 3% compared to COPE of 1.2% and higher staffing expenses.

Figure 5: EBT per bed per annum



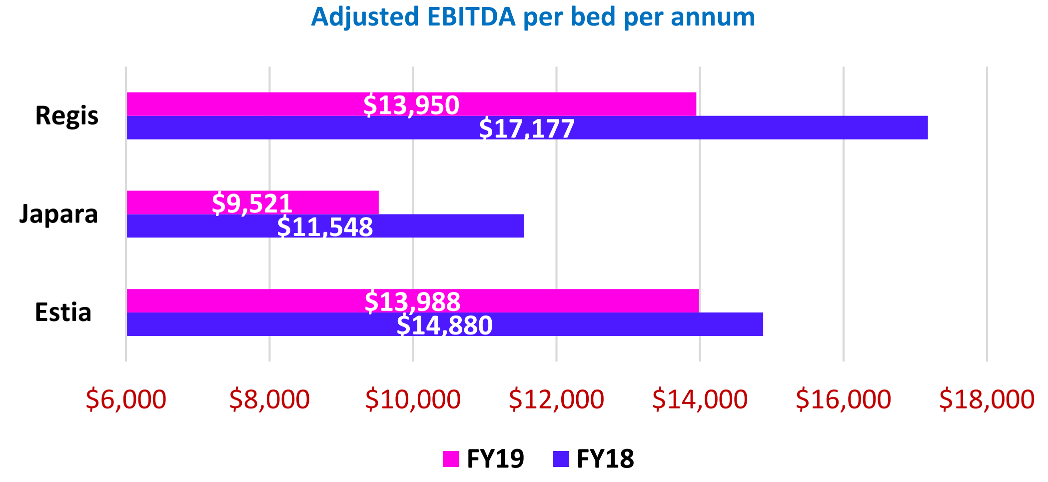
This measure of EBT pbpa excludes other non-operating income

- Estia's FY19 EBT pbpa has remained around the same level as FY18 of around $9,471 pbpa
- Similarly, the EBT pbpa for Japara has remained the same at $4,442 pbpa
- Regis has declined significantly by $2,672 pbpa due to lower profitability and higher depreciation in FY19 as a result of the completion of greenfield developments

There are various opinions on what level of EBT may be considered sufficient. If the total cost (built or acquired) of a bed is (say) $275,000 (excluding land) an EBT of $8,000 per bed per annum only represents an effective return of less than 3.0%

Adjusted EBT and EBITDA *(excluding FY19 Q4 additional funding)*

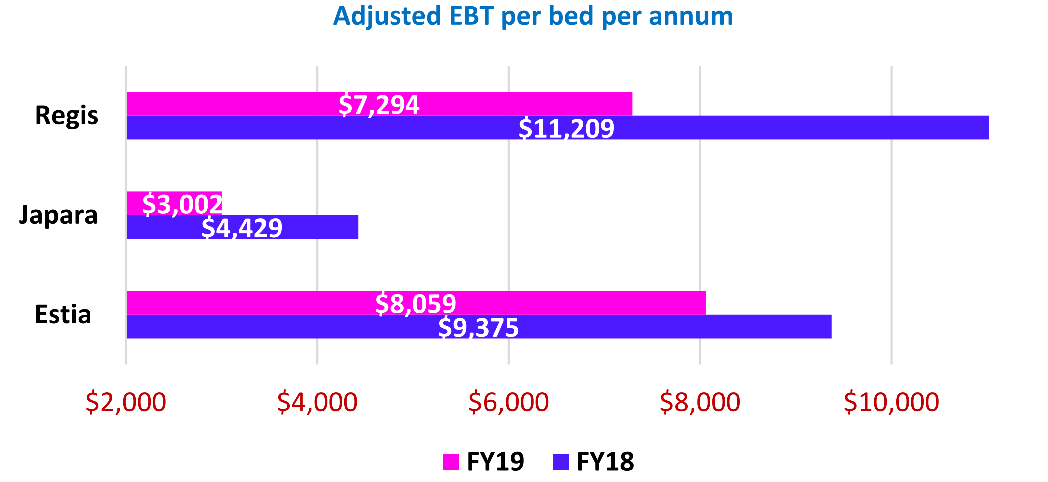
Figure 6: Adjusted EBITDA per bed per annum



When the additional funding is removed from the results, the adjusted EBITDA pbpa has fallen for all three listed providers:

- The Adjusted EBITDA pbpa has decreased by $892 pbpa for Estia
- Japara's adjusted EBITDA pbpa has decreased by $2,027 pbpa
- The EBITDA pbpa has decreased for Regis by $3,227 pbpa

Figure 7: Adjusted EBT per bed per annum



When the additional funding is removed from the results, the adjusted EBT pbpa has fallen significantly for all three listed providers, reflecting that the growth in revenue cannot keep up with the growth in costs:

- Estia's EBT pbpa has decreased by $1,316 pbpa
- EBT pbpa has fallen by around $1,427 pbpa for Japara
- Regis has declined by $3,915 pbpa

StewartBrown
Integrity • Quality • Clarity

Cash Flows

Table 7: Summary of cash flows for periods ended 30 June 2019 and 30 June 2018

	ESTIA	ESTIA	JAPARA	JAPARA	REGIS	REGIS
	Jun-19	**Jun-18**	**Jun-19**	**Jun-18**	**Jun-19**	**Jun-18**
Operating Cash Flows	**$'000,000**	**$'000,000**	**$'000,000**	**$'000,000**	**$'000,000**	**$'000,000**
Receipts	586.0	545.5	389.8	361.3	640.7	588.0
Payments	(489.9)	(442.4)	(347.5)	(315.8)	(527.5)	(476.1)
Finance costs (net)	(6.8)	(6.8)	(6.0)	(3.6)	(16.3)	(15.0)
Income tax paid	(15.9)	(22.3)	(2.3)	(6.3)	(19.6)	(25.7)
Net operating cash flows	**73.4**	**74.0**	**34.0**	**35.5**	**77.2**	**71.2**
Investing Cash Flows						
PP&E movement (net)	(92.8)	(57.1)	(47.3)	(29.5)	(68.7)	(217.2)
Capital work in progress	0.0	0.0	(78.4)	(78.8)	0.0	0.0
Acquisitions	0.0	0.0	0.0	(40.3)	0.0	(28.5)
Net investing cash flows (outflows)	**(92.8)**	**(57.1)**	**(125.7)**	**(148.5)**	**(68.7)**	**(245.7)**
Financing Cash Flows						
RAD movement (net)	14.6	62.8	44.7	41.6	142.9	62.6
Borrowings (net)	50.0	(46.5)	65.0	84.5	(109.0)	156.2
Dividends paid	(41.7)	(41.2)	(17.4)	(25.9)	(50.4)	(58.0)
Share issue	0.0	0.0	1.7	0.6	0.0	0.0
Net financing cash flows (outflows)	**22.9**	**(24.9)**	**94.0**	**100.8**	**(16.5)**	**160.8**

Commentary

- Operating cash flows exclude proceeds from and repayment of RADs in line with the Aged Care Financial Report disclosures. *StewartBrown also considers such cash flows to be of a financing rather than operating nature*
- Net RAD movement has increased for Japara and Regis in FY19 compared to Jun-18 due to the ramping up of new aged care homes during the period
- Regis repaid net external borrowings of $109.0m
- Estia and Japara increased external borrowings during the period by $50.0m and $65.0m respectively
- Dividend paid % for the 3 listed providers was 100% of NPAT (For Regis is 100% of NPAT less $5.1 non-cash fair value gain on two retirement living sites) which means that there are low retained earnings. *While this is a legitimate strategy (and also to maintain shareholder dividends), an alternative consideration is to set aside a greater proportion of these profits to build reserves for growth and refurbishment of facilities. The continuing shift from RADs to DAPs (RADs being at zero cost of financing) is likely to have cash-flow implications, with capital refurbishment and repayment of RADs potentially to be replaced by the higher cost of external borrowings or the requirement for equity injection. This could affect future development considerations.*

Depreciation

The listed entities FY19 Annual Financial Reports include the respective building depreciation policies. Estia and Japara have updated the useful life for buildings to provide a range. The policies are summarised below.

	ESTIA		JAPARA		REGIS
	FY19	**FY18**	**FY19**	**FY18**	**FY19 & FY18**
Buildings	4 to 50 years	50 years	25 to 50 years	50 years	55 years
Plant and equipment, furniture and fixtures	4 to 20 years	4 to 15 years	4 to 25 years	4 to 25 years	3 to 30 years
Property improvements	4 to 50 years	50 years	4 to 50 years	4 to 50 years	n/a

As discussed in our previous listed entity reports, StewartBrown has a contrary view on the above depreciation policies. Depreciation is an accounting method of allocating the cost of a tangible asset, such as a building, over its useful life. Organisations depreciate long-term assets for both tax and accounting purposes and to ensure that they have allocated sufficient funds to prepare for refurbishment or re-build. As a non-cash expense, its importance is often underappreciated or in some cases underreported as a means of improving profitability.

The depreciation policy of the listed entities (and others in the sector) does not appear to match their policy on refurbishment. Generally, a residential aged care facility requires a major refurbishment on average every 12 years in order to maintain attractiveness and be competitive. Therefore, if the average depreciation rate were to reflect this, it would be closer to **20 or 30 years**.

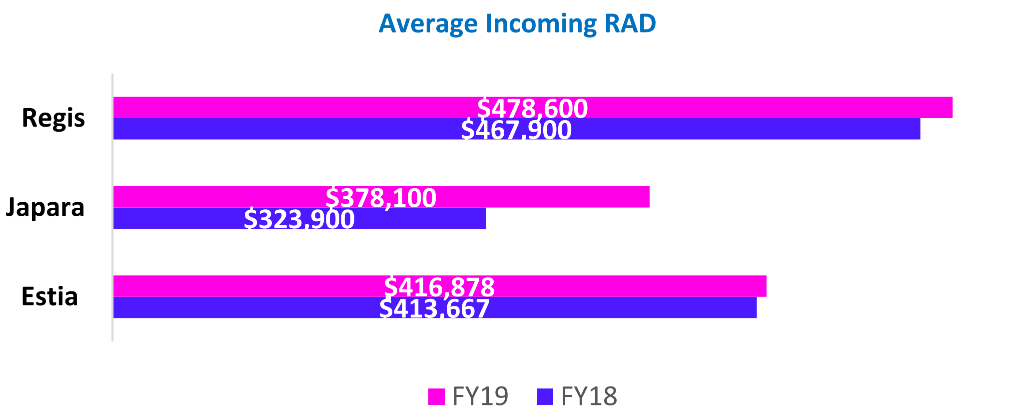
There is no separate disclosure in the listed entities financial statements in relation to the amount spent on facility refurbishment and it may therefore be assumed that such expenditure is capitalised. If this were the case, it raises further concerns as to the depreciation policy of the listed entities.

We noted that both Regis and Japara disclose Land and Buildings as the same asset class, whilst Estia treat them as separate asset classes.

Accommodation Analysis

Average incoming RAD

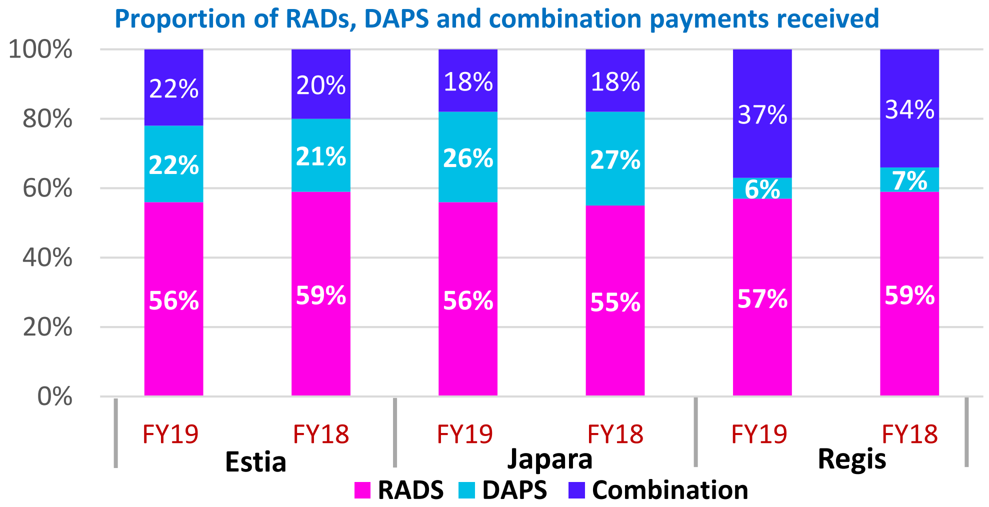
Figure 8: Average Incoming Refundable Accommodation Deposit (RAD)



- ***Estia*** average incoming RAD increased, due to the higher levels of accommodation pricing on average
- ***Japara's*** average incoming RAD improvement reflects the higher prices of their new homes and refurbished places
- ***Regis*** increased incoming average RAD also reflects the higher levels of accommodation pricing of its new homes and refurbished places

Incoming Resident Payment Preference

Figure 9: Proportion of RADs, DAPS and Combinations received



- ***Estia's*** split indicates a shift away from RADs to Combinations payments and DAPs
- ***Japara's*** FY19 incoming resident payment preferences show little change to FY18
- ***Regis*** has a much higher percentage of Combination payments compared to the other two listed providers. There has been a slight shift in RADs towards the Combination payments in FY19

The sector is seeing a continuing shift from RADs to either DAPs or Combinations. This is partly due to increased acuity, meaning the length of stay is declining, and this influenced consumer decisions. The effect of this changing mix could affect the cash-flow and equity structure of the listed entities

Market Capitalisation

Market capitalisation is measured as number of ordinary shares multiplied by the share price as at 30 June 2019. Adjusted EBITDA, EBITDA, EBT (net profit after tax) are shown as a percentage of market capitalisation.

Table 8: Results as a percentage of market capitalisation as at 30 June 2019 and 30 June 2018 for the listed entities

	Estia		**Japara**		**Regis**	
	Jun-19	**Jun-18**	**Jun-19**	**Jun-18**	**Jun-19**	**Jun-18**
Ordinary shares	260,602,749	260,580,283	267,247,328	265,887,509	300,625,000	300,491,000
Share price	$2.64	$3.29	$1.13	$1.81	$2.63	$3.28
As at close of:	28/06/2019	29/06/2018	28/06/2019	29/06/2018	28/06/2019	29/06/2018
Market capitalisation ($m)	$688.0	$857.3	$302.0	$481.3	$790.6	$985.6
EBITDA ($m)	$95.7	$90.0	$48.2	$47.0	$109.5	$116.0
Adjusted EBITDA ($m)	$85.4	$90.0	$40.3	$47.0	$98.7	$116.0
EBT ($m)	$57.8	$56.7	$18.8	$18.0	$60.4	$75.7
Adjusted EBT ($m)	$49.2	$56.7	$12.7	$18.0	$51.6	$75.7
EBITDA (as % of market capitalisation)	13.9%	10.5%	16.0%	9.8%	13.9%	11.8%
Adjusted EBITDA (as % of market capitalisation)	12.4%	10.5%	13.4%	9.8%	12.5%	11.8%
EBT (as % of market capitalisation)	**8.4%**	**6.6%**	**6.2%**	**3.7%**	**7.6%**	**7.7%**
Adjusted EBT (as % of market capitalisation)	**7.1%**	**6.6%**	**4.2%**	**3.7%**	**6.5%**	**7.7%**

The EBT as a percentage of market capitalisation is the most interesting measure as this metric represents the potential return on investment for shareholders. With the large decreases in share prices, EBT as a % of market capitalisation has improved across the listed entities. This result does varies from 6.2% (Japara) to 8.4% (Estia) for the year to June 2019 for EBT and from 4.2% (Japara) to 7.1% (Estia) for Adjusted EBT.

Summary Tables

	ESTIA		JAPARA		REGIS	
	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18
Balance Sheet	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	14,631	11,198	31,472	29,158	0	7,770
Financial assets	0	0	0	0	0	147
PPE	822,696	757,110	787,767	687,720	1,147,692	1,127,102
Investment property	1,620	1,620	39,200	38,398	143,375	129,049
Intangibles	1,039,649	1,035,788	494,801	491,378	479,617	478,417
Other assets	16,193	18,184	25,395	21,952	22,214	16,194
Total assets	***1,894,789***	***1,823,900***	***1,378,635***	***1,268,606***	***1,792,898***	***1,758,679***
Resident liabilities	806,337	792,879	554,649	509,348	1,126,920	989,238
Borrowings	125,000	75,000	210,500	145,500	303,080	411,589
Employee entitlements	50,112	46,062	40,620	37,197	66,173	58,575
Creditors & other liabilities	151,833	148,395	40,782	42,783	118,080	118,907
Total liabilities	***1,133,282***	***1,062,336***	***846,551***	***734,828***	***1,614,253***	***1,578,309***
Net Assets	***761,507***	***761,564***	***532,084***	***533,778***	***178,645***	***180,370***
Income Statement						
Operating revenue	585,985	546,934	394,937	361,523	646,855	593,990
Investment and other non-operating income	36	483	4,831	11,665	9,202	1,077
Total revenue (excludes interest income)	***586,021***	***547,417***	***399,768***	***373,188***	***656,057***	***595,067***
Staff costs	386,804	360,216	277,563	258,967	448,067	397,431
Depreciation	29,184	26,002	19,995	17,150	33,932	27,582
Net Finance Costs (offset with interest income)	6,990	7,279	5,914	3,817	13,182	8,818
Other	105,214	96,755	72,652	63,568	91,249	84,464
Total expenses	***528,192***	***490,252***	***376,124***	***343,502***	***586,430***	***518,295***
EBT	***57,829***	***57,165***	***23,644***	***29,686***	***69,627***	***76,772***
Tax	16,539	16,011	7,211	6,359	18,730	22,903
Result after tax	***41,290***	***41,154***	***16,433***	***23,327***	***50,897***	***53,869***
Other items - one off	0	0	(2,412)	0	(167)	(23)
Total comprehensive income for the year	***41,290***	***41,154***	***14,021***	***23,327***	***50,730***	***53,846***

StewartBrown
Integrity • Quality • Clarity

Reconciliations of EBITDA calculations

Estia	Jun-19	Jun-18
	$'000	$'000
NPAT	41,290	41,154
Net finance costs	6,990	7,279
Tax	16,539	16,011
Depreciation and amortisation	29,184	26,002
Interest Income	0	0
Statutory EBITDA	***94,003***	***90,446***
Less: Other non-operating income	36	483
Add back: Royal Commission costs	1,721	-
Add back: Other non-recurring one-off expenses	-	-
EBITDA	***95,688***	***89,963***
Less: Federal Government additional funding subsidy	10,336	-
Adjusted EBITDA	***85,352***	***89,963***
Adjusted EBT	***49,178***	***56,682***

Japara	Jun-19	Jun-18
	$'000	$'000
NPAT	16,433	23,327
Net finance costs	5,914	3,817
Tax	7,211	6,359
Depreciation and amortisation	19,995	17,150
Interest Income	0	0
Statutory EBITDA	***49,553***	***50,653***
Less: Other non-operating income	4,831	11,665
Add back: Royal Commission costs	1,800	-
Add back: Other non-recurring one-off expenses	1,700	8,000
EBITDA	***48,222***	***46,988***
Less: Federal Government additional funding subsidy	7,900	-
Adjusted EBITDA	***40,322***	***46,988***
Adjusted EBT	***12,713***	***18,021***

Reconciliations of EBITDA calculations

Regis	Jun-19	Jun-18
	$'000	**$'000**
NPAT	50,897	53,869
Net finance costs	13,400	9,225
Tax	18,730	22,903
Depreciation and amortisation	33,932	27,582
Interest Income	218	407
Statutory EBITDA	***116,741***	***113,172***
Less: Other non-operating income	9,202	1,077
Add back: Royal Commission costs	2,000	-
Add back: Other non-recurring one-off expenses	-	3,900
EBITDA	***109,539***	***115,995***
Less: Federal Government additional funding subsidy	10,800	-
Adjusted EBITDA	***98,739***	***115,995***
Adjusted EBT	***51,625***	***75,695***

Glossary

ACFI	Aged Care Funding Instrument
Adjusted figures	Adjusted figures refers to figures less the Government revenue received from the one-off additional subsidy received in FY19
Adjusted EBITDA	This is the (StewartBrown) EBITDA further adjusted for the one-off Federal Government funding subsidy in FY19. *Adjusted EBITDA = EBITDA - Government revenue from one-off funding subsidy*
Adjusted EBT	Adds back the one off Royal Commission costs in FY19 and deducts the one-off Federal Government funding subsidy in FY19. *Adjusted EBT = EBT + Royal Commission costs - Government revenue from one-off funding subsidy*
Adjusted operating revenue	Refers to operating revenue less the one-off Federal Government funding subsidy in FY19. *Adjusted operating revenue = Operating revenue - Government revenue from one-off funding subsidy*
Cash	Cash and cash equivalents
COPE	Commonwealth Own Purpose Expenses
DAP	Daily Accommodation Payment
Debt	Resident loans (RADS, accommodation bonds), ILU resident loans, other loans and borrowings
EBITDA (StewartBrown calculation)	This measure represents earnings before interest (including other non-operating income), taxation, depreciation and amortisation. The main reason for this is to achieve some consistency in the calculation. To ensure that the measure is consistent across all organisations we exclude the other non-operating income stream. *EBITDA = NPAT + net finance costs + tax + depreciation and amortisation – interest income - other non-operating revenue*
EBT	Earnings before taxation. This is a measure that excludes those variables relating to the tax status of an entity but recognises the consumption of capital in the form of depreciation and amortisation.
Liquid financial assets	Current assets that can be converted into cash such as shares
Normalised EBITDA	This is the Statutory EBITDA adjusted for one off revenue and expenses such as acquisition related costs, increase in fair value of investment property, net gain/discount on acquisition and on disposal of non-current assets; these adjustments are taken from the investor reports. *Normalised EBITDA = Statutory EBITDA + adjustments for non-recurring revenue and expense items*
Operating revenue	Operating revenue is taken from the financial reports - it excludes interest income
RAD	Refundable Accommodation Deposit
RCS	Respite Care Subsidy (or Resident Classification Scale)
Return on Assets (ROA)	The return (EBT and EBITA) on Total Assets Employed. This is measure of the real operating return (profit) based on the total value of assets employed (used) to generate the return.
Statutory EBITDA	This measure represents earnings before interest, taxation, depreciation and amortisation. It is calculated from the financial statements of the provider. *Statutory EBITDA = NPAT + net finance costs + tax + depreciation and amortisation – interest income*

StewartBrown Aged Care Executive Team

Grant Corderoy
Senior Partner

Grant is the Senior Partner at StewartBrown and would be regarded as being one of the foremost financial and policy authorities for aged and community services in Australia. He leads the Consulting team and specialises in a range of services for his clients including undertaking complex accounting assignments, system reviews, management consulting, specialised audits and general business advice. He also has considerable experience in advising clients on the sale and purchases of businesses, business valuations and due diligence. Grant has over 40 years' experience in the profession and was previously responsible for the Audit and Aged Care Division which he established in 1990.
grant.corderoy@stewartbrown.com.au

Stuart Hutcheon
Partner

Stuart is the head of our Audit & Assurance Division, but also provides consulting services to a diverse client base. He has had considerable experience covering all areas of professional services. Stuart specialises in the not-for-profit sector in the areas of audit, management accounting, budgeting, salary packaging, FBT advice and benchmarking services. Stuart has more than 20 years' experience in the profession. He is a member of Chartered Accountants Australia and New Zealand, and is a Registered Company Auditor.

stuart.hutcheon@stewartbrown.com.au

Vicki Kearney
Director

Vicki is a Director in StewartBrown's consulting division specialising in the financial management of aged care, retirement living, home and community. Vicki's expertise as a professional resource is within the areas of financial and statutory reporting, management accounting, project management, property and service delivery reporting, team structure, staff management (including crisis management), compliance and risk.

vicki.kearney@stewartbrown.com.au

David Sinclair
Partner

David is Partner with StewartBrown specialising in providing professional services and advice to the aged care, disability and community services sectors, with a strong focus with not-for-profit providers. David heads the Internal Audit Division and the Business Analyst team, and is also actively involved in our Benchmark Division. David has over 30 years of experience in professional practice with a background in audit (internal and external), risk management, insolvency and a wide range of consulting assignments to a variety of industries. David is also past Chairman and continuing Director of an aged care provider.
david.sinclair@stewartbrown.com.au

Survey Analysis and Administration Team

Tracy Thomas
Senior Manager
tracy.thomas @stewartbrown.com.au

Robert Krebs
Senior Business Analyst
robert.krebs@stewartbrown.com.au

Vicky Stimson
Survey Administrator
vicky.stimson@stewartbrown.com.au

Sabrina Qi
Business Analyst
sabrina.qi@stewartbrown.com.au

Rachel Corderoy
Media and Marketing
rachel.corderoy@stewartbrown.com.au

StewartBrown - Our Knowledge is Your Success

StewartBrown, Chartered Accountants, was established in 1939 and is one of the leading boutique accountancy firms in Australia combining a full range of professional services with varied corporate assignments. Our professional mission statement is "*we deliver service beyond numbers*", which reflects the commitment to helping our extensive range of clients to achieve their financial goals.

We offer a depth of technical knowledge and varied professional experience, with many of our senior staff now having well over 10 years' of service with the firm, resulting in our clients benefitting from continuity and accountants who really understand their business.

What a boutique firm offers

Whilst StewartBrown provides a range of professional services, our "point of difference" is our ability to engage in assignments of a complex nature by providing a varied mix of experience and corporate skills. Examples of recent consulting assignments include:-

- Contract accounting
- Payroll processing and billing processing
- Financial modelling and unit costing analysis
- Strategic planning facilitation
- ITSC Project management
- Governance reviews
- Organisation restructures
- Risk management reviews
- Due diligence
- Work-flow building design
- FBT and GST reviews
- Detailed forecasting modelling

Audit and Assurance Services

Complementing our consulting services is our dynamic Audit division. StewartBrown adopts a risk based audit approach which is performed strictly in accordance with Australian Auditing Standards. Our engagements involve a detailed analysis of the client's business and systems of internal control to ensure we fully understand how the client operates and identify areas that pose the greatest risk of being materially misstated in the financial statements.

Our detailed testing procedures are then tailored to meet the risks identified and also ensure an efficient and effective audit is performed.

What we offer our audit clients are a mix of experience and knowledge well beyond that of most other firms. Our audit staff all have regular exposure to consulting and secondment assignments which significantly enhances the "value add" we bring to our audit clients.

Specialty in the aged care, community and disability sectors

StewartBrown is widely regarded as being a leading specialist within the aged care, community and disability sectors. Our client base includes many large national providers in addition to independent stand-alone providers, faith-based and community providers, culturally specific providers, as well as government and statutory bodies.

Our commitment to these important social sectors each year involve 30+ plus speaking engagements at Conferences, sector briefings, workshops, department briefings, organisation presentations and community consultations.

Integrity + Quality + Clarity

These terms which appear on our logo are more than aspirations, they appear for a very important reason they encapsulate the professional standards that we strive to continually maintain and ensure best practice

Celebrating 80 YEARS 1939 to 2019

CONTACT US

New South Wales
Tower 1 / Level 2
495 Victoria Avenue
Chatswood NSW 2067
T: +61 2 9412 3033
F: +61 2 9411 3242
benchmark@stewartbrown.com.au

South Australia
Level 1 / 104 Frome Street
Adelaide SA 5000
T: +61 8 8229 2280
F: +61 8 8229 2288
www.stewartbrown.com.au

FINANCIAL REVIEW TOP 10 PRO BONO ACCOUNTING FIRMS 2018

FINANCIAL REVIEW TOP 100 ACCOUNTING FIRMS 2018

CHARTERED ACCOUNTANTS™ AUSTRALIA + NEW ZEALAND