LISTED AGED CARE PROVIDERS FINANCIAL PERFORMANCE ANALYSIS

For the six month period to 31 December 2021

Introduction

This listed aged care providers financial performance for the six-month period ended 31 December 2021 focuses solely on the two listed providers in order to provide a timely snapshot and commentary on their financial and operational results.

The StewartBrown *Aged Care Financial Performance Survey (Survey)* results for December 2021 including the sector analysis will be made available in a forthcoming report. Although the main focus of the StewartBrown Survey is financial performance at the *aged care home level*, we also include the *provider* (organisation) *level* financial performance and related trend analyse. This allows for a better comparison to the listed entity results (which are also at a provider 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 this Analysis is to compare the financial performance of the listed aged care providers for the six-month period ended 31 December 2021.

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

StewartBrown
Integrity • Quality • Clarity

Headline observations, trends and comments

Item	Observations and background	Page
Occupancy	• Occupancy continued to remain challenging in 1H FY22, as a result of ongoing COVID spread , however at Feb-22, both listed operators had an occupancy which exceeded 90% (Regis: 90.4% and Estia: 90.1%) • Occupancy trends differed for Regis and Estia in 1H FY22, noting: – **Regis**: Avg occupancy declined in 1H FY22 compared to 2H FY21, but significantly improved post year end (spot rate: 90.4%) – **Estia**: Average occupancy for 1H FY22 (92.6%) was higher than the preceding six months (2H FY21: 91.8%), however declined post 1H FY22 to 90.1% (marginally lower than Regis)	7-8
Resident profile	• As previously observed and reported, the shift in non-supported residents away from RAD payers remains a continuing trend – This trend will continue to create cash flow headwinds, as some existing RAD payers are replaced by DAP or Combination RAD/DAP payers (who in the absence of room price increases, would result in RAD cash outflows) • It is important to also note the current inequitable impact of accommodation payments between residents with means, and less affluent residents who may not be able to pay an upfront RAD – The implicit accommodation cost is lower for RAD payers (i.e. interest foregone from bank deposits) vs a daily payer (whose accommodation cost is priced at 4.07% of the room price, being the current Maximum Permissible Interest Rate)	15
RADs	• Regis and Estia reported $1.08bn and $769.5m in RAD liabilities at 31 December 2021 respectively, which was higher than 30 June 2021. The increase in RAD liabilities were: – **Regis**: $44m increase, with $11.9m of this attributable to an increase in Probate balances (which in other periods can be negative) – **Estia**: $22.2m increase, with the majority of the increase ($13.9m) associated with a higher probate liability across the portfolio. Net RAD's on new homes / closures was $4.5m meaning RAD cash flows for mature homes were only marginally positive.	17-18
Places and future growth profile	• Regis and Estia reported a decline in bed numbers/places between 30 June 2021 and 31 December 2021. Regis developments have been paused pending more certainty surrounding future funding of industry while Estia's Board has approved a cautious restart of their development programme. • In the absence of future places growth, future earnings will continue to be challenging in light of: – Effect of negative jaws (growth in staff costs/expenses increasing at a rate which exceeds revenue growth (i.e. COPE) – Continued increased compliance and administrative requirements (see point on Royal Commission) on the following page – The ongoing impact of 'COVID normal' costs without adequate additional government funding to compensate	6

Headline observations, trends and comments

Item	Observations and background	Page
Amortisation of bed licences	• Following the Department of Health's announcement regarding the discontinuation of the Aged Care Approvals Round from 1 July 2024 and consideration of Accounting Standards, both providers have recognised an amortisation charge in relation to bed licences held on the balance sheet as an intangible asset • Regis and Estia will continue to amortise the remaining bed licence intangible asset on a straight line basis over the 2H FY22, FY23 and FY24 periods • The charge is non cash and both Providers have said they do not impact on the banking covenants and are not expected to impact or restrain their ability to pay dividends	n/a
Royal Commission	• With just over 12 months since the release of the Final Report of the Royal Commission into Aged Care Quality and Safety, a number of initiatives are expected to take effect during 2022: – **Jul-22**[a]: quarterly reporting of care minutes becomes effective, and care statements provided to residents' families – **Oct-22**[a]: AN-ACC funding model replaces ACFI from 1 Oct 2022 – **Dec-22**[a]: Star rating system will be implemented – **Oct-23**[a]: Minimum staffing time (avg 200mins care time per resident per day, which includes at least 40mins of RN time) will take effect • Providers should ensure that adequate policies, procedures and implementation plans have been developed in order to meet the additional requirements as noted above	n/a

Note a: https://www.health.gov.au/sites/default/files/documents/2021/05/residential-aged-care-services-and-sustainability-pillar-2-of-the-royal-commission-response-mandatory-care-time-standards-and-reporting.pdf

Headline financial information

	1H FY22	
	Regis	Estia
Financial performance ($m)		
Operating revenue	364.2	321.3
Non-operating revenue (incl. AASB 16)	31.4	21.2
Total revenue (incl. AASB 16)	**395.6**	**342.5**
Reported Underlying EBITDA (incl. COVID)	34.3	33.3
NPBT/EBT (incl. impairment)	(5.1)	(11.1)
NPBT/EBT (excl. impairment & amort)	15.2	9.1
Key balance sheet items ($m)		
Total assets	1,787.7	1,828.2
Net Tangible Assets/(Deficiency)	(318.9)	(287.5)
Net assets/equity	124.5	597.9
RAD liabilities	1,232.3	886.2
ILU Entry Contribution liabilities	41.6	0.5
Total RAD and ILU liabilities (non-interest bearing)	**1,273.9**	**886.7**
Cash & cash equivalents	44.0	23.3
Other external debt (interest bearing), incl. Overdraft	104.7	28.3
Operating metrics (%)		
Occupancy rate (average for 1H FY22	89.3%	92.6%
Staff costs as a % of operating revenue	71.4%	70.3%
Funded bed days	1,167,834	1,036,924
Avg beds for period (based on occupied bed days)	6,347	5,635
Profitability metrics (%)		
EBITDA per bed (reported) - Annualised (and incl. COVID)	9,678	10,697
EBITDA as a % of operating revenue	9.4%	10.4%
Return on Assets (annualised)	3.8%	3.6%

See Appendix 2 for details

See Appendix 2 for details

Note 1: Refer to appendix for reconciliation of NPBT and Reported Underlying EBITDA
Note 2: Avg beds for period = Occupied bed days for period, divided by number of calendar days in the period
Source: FY21 financial statements and Investor Presentations for each Provider

Financial performance

- Both Regis and Estia reported an increase in operating revenue in 1H FY22 vs both the prior comparable period (1H FY21) and the immediate preceding half year (2H FY21), which was associated with:
  - **Revenue rate**: through indexation and additional funding for the BDF Supplement
  - **Volume**: An increase in occupied bed days
- Refer to pages 10-13 for further revenue details
- COVID expenses have been included for both providers to facilitate a comparison of EBITDA/EBITDA per bed on a like-for-like basis
- The key factors underpinning both revenue and expenses have been outlined throughout this report.

Key balance sheet items

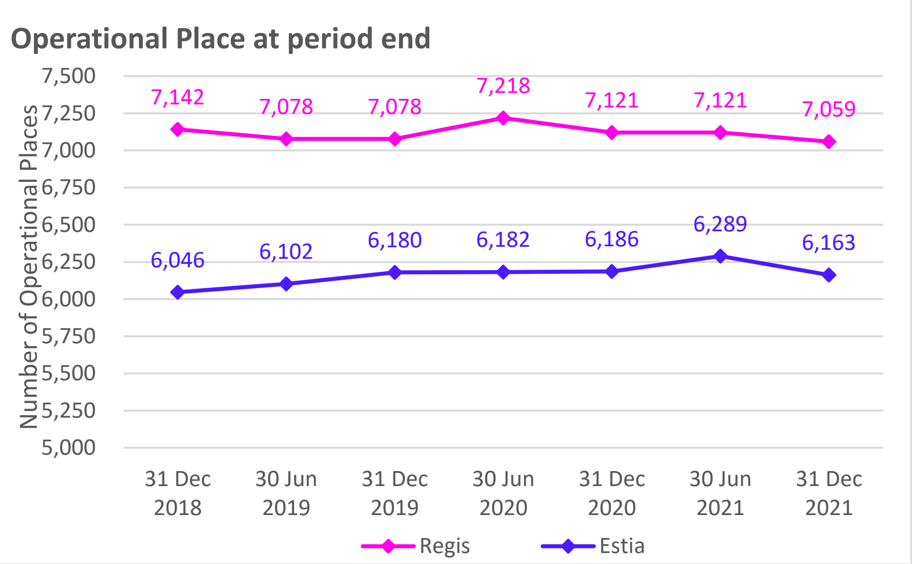
- Notwithstanding the significant total assets reported by each Provider (both c$1.8bn in assets), they both have a net tangible asset deficiency. This is due to the RAD liabilities and a significant proportion of assets being intangible assets (predominantly goodwill and bed licences)
  - Bed licence intangible values will be written off over the period to 30 June 2024 on a straight line basis in light of the proposed deregulation of licences.
- Summary balance sheets as at 31 Dec 2021 are presented in Appendix 3.

Operating metrics and profitability

- In 1H FY22, the industry remained under pressure with occupancy challenges arising from both COVID lockdowns/restrictions, staff shortages and staff isolation.
- Nevertheless, both providers reported higher bed days in 1H FY22 vs prior periods. Refer to pages 7-8 for further details of occupancy rate.
- Profitability trends and challenges continued to persist in 1H FY22, including but not limited to expenses increasing at a rate faster than revenue (i.e. negative jaws) as well as costs associated with managing the ongoing COVID impact
- Detailed analysis of these impacts and trends are shown on pages 10-13.

StewartBrown
Integrity • Quality • Clarity

Operational Places – Total



Note 1: Regis places at 30 Jun 2021 (7,121) calculated from other disclosures.
Source: Historical investor presentations and ASX announcements.

	Regis	Estia
Operational Places movement		
Places at 30 June 2021	7,121	6,289
Places acquired	-	-
Greenfield development beds	-	-
Beds closed	(62)	(126)
Places at 31 Dec 2021	**7,059**	**6,163**

Note 1: Beds closed relate to homes closed and/or beds made inactive within existing homes
Source: Historical Investor Presentations

Overview

- Operational Places for both listed Providers declined in 1H FY22 due to bed closures or beds made inactive at existing homes due to a combination of:
  - converting multi-bed rooms to single rooms
  - closing beds for places not being used/required due to lower occupancy.
- As development pipelines have been temporarily paused in recent periods near term growth is nil unless acquisitions are made.
- Neither of the listed providers have completed any acquisitions since March 2020. Acquisition opportunities may assist in future growth in the short term, however come with their own challenges (upfront cost, integration and execution risk etc).

Regis

- A further 62 Places were closed/taken offline during 1H FY22, with 7,059 Operational Places at 31 Dec 2021
  - This represents a 2.2% decline in the number of Operational Places managed by Regis since its peak (30 Jun 2020: 7,219).

Estia

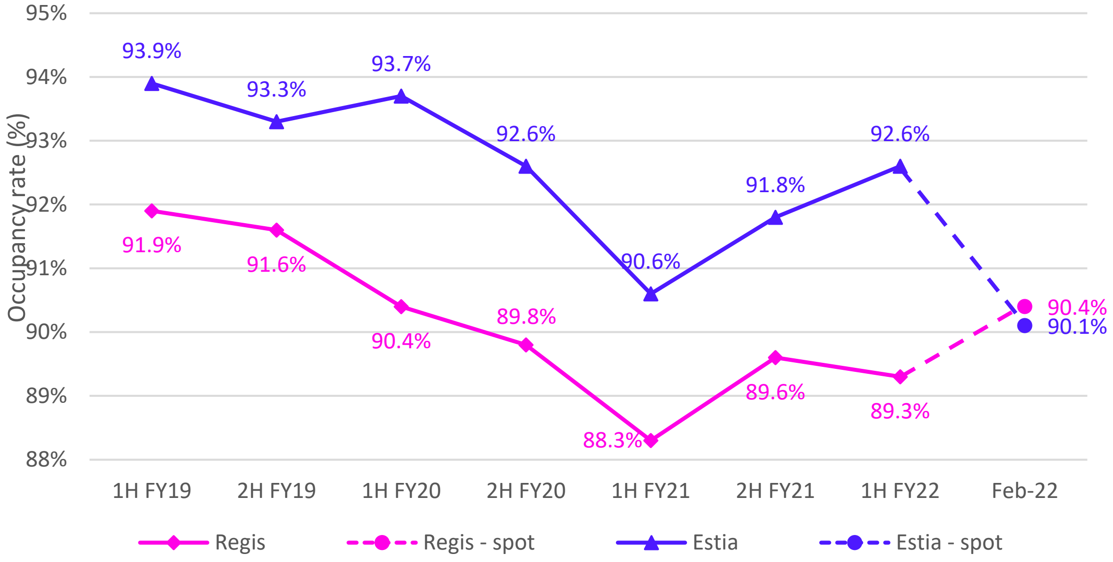
- Estia reported 6,163 beds at 31 Dec 2021, which was 126 (or 2.0%) lower than 30 June 2021 (6,289).
- This includes Estia's home in Keilor Downs (VIC) which closed with effect 2 Aug 2021[a] and its leasehold site at Prahran (VIC).

StewartBrown

Note a: https://www.agedcarequality.gov.au/services/estia-health-keilor-4323-closed

Occupancy

Occupancy per half year and recent spot rate



Note 1: Occupancy above for half year periods represents the average occupancy for the period
Note 2: Spot occupancy relates to Feb-22 (1H FY22 results release)
Note 3: Dashed line represents the change in average occupancy for half year to spot occupancy at mid-Aug 2021
Source: Historical Investor Presentations for each Provider and analyst calls

Overview

- Note that occupancy trend lines are improved by closing older homes and making beds in shared rooms inactive as it reduces the denominator without changing the numerator.
- Changes in occupancy are a critical lead indicator for the sector as it has:
  - a direct and immediate impact on profitability
    - volume impact
    - leveraged margin impact due to fixed cost bases and inability to flex theoretical variable cost bases (rostered staff) in a timely fashion to match occupancy changes.
  - an impact on RAD cashflows (albeit slightly delayed due to collection / probate timeframes).

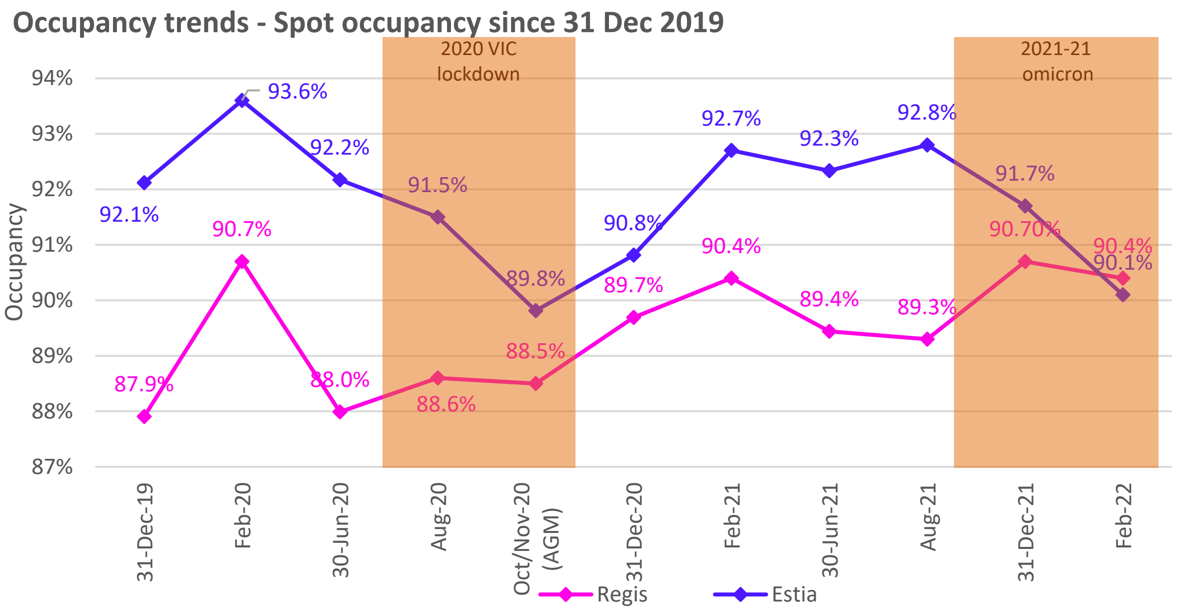
Regis

- Average occupancy has slightly lower than 2H FY21
- Although Regis had a lower average occupancy rate than Estia by c. 2 percentage points over the last 3.5 years, at Feb-22, Regis' spot occupancy (90.4%) exceeded Estia. Unlike Estia, Regis operates in WA which was largely COVID free until February 2022.

Estia

- Average occupancy recovered in the last 12 months (i.e. over the 2021 calendar year), however declined dramatically post 31 Dec 2021.
- The current spot rate (Feb-22) is largely comparable with the spot occupancy rate during the depths of the first COVID lockdowns in 2020.

Occupancy (cont.) – Trend in spot occupancy for last year (COVID)



Note 1: Period end occupancy = # residents divided by Operational Places at period end (where not quoted)
Note 2: Feb-20, Aug-20 , Feb-21, Aug-21 and Feb-22 spot occupancy as per investor presentations
Note 3: Estia AGM occupancy represents weighted average at 31 Oct based on split of beds between VIC (2,093) and non-VIC (4,089)
Source: Historical Investor Presentations for each Provider, Analyst Calls and ASX announcements

Background

- Illustrated in the chart opposite is the spot occupancy rate for each Provider since 31 Dec 2019 which provides greater insight into intra period changes.
- As expected, spot occupancy declined during the extended COVID lockdown within NSW and VIC as a result of the Delta and Omicron variants. Given the variation in portfolio geographies the impact was greater on Estia than Regis.
- Based on Mirus data, we note that the industry reported an average occupancy of 89.96% in Feb-22[a], which is consistent with that reported by Regis and Estia

Key observations

- Regis reported a strong improvement in the latter half of the 1H FY22 period, with spot occupancy increasing by 1.4 percentage points between Aug-21 (89.3%) and Dec-21 (90.7%).
- As noted on the previous page, Regis' spot occupancy at Feb-22 was marginally higher than Estia. Estia has experienced a significant decline (2.7 percentage points) in occupancy between Aug-21 (92.8%) and Feb-22.

Omicron exposure

- The first COVID omicron case in Australia was detected in late Nov-21[b]., which spread rapidly throughout NSW and VIC in the period following its detection
- The impact on Estia's occupancy was greater than Regis as a result of their relative geographic footprint and exposure to affected states:
  - Estia: 64% of beds are in NSW (1,975 beds; 32%) and VIC (1,986; 32.5%)
  - Regis: have a small exposure to NSW (7 out of 64 homes) as well a greater relative exposure than Estia to QLD and WA (with 50% of homes operated), with those states not subject to as strict lockdowns since Nov-21.

Note a: Mirus March 2022 report
Note b: https://www.abc.net.au/news/2021-11-28/travellers-test-positive-to-omicron-covid-sydney/100657076

Table of Contents

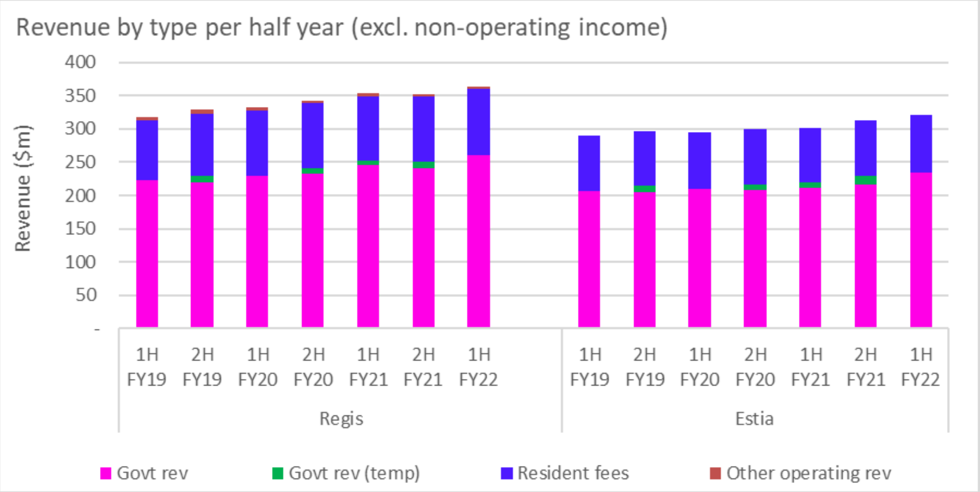
StewartBrown
Integrity • Quality • Clarity

Revenue (total)

$000s	1H FY22 Regis	1H FY22 Estia
Income		
Govt revenue	260,245	233,894
Govt revenue (temp funding)	-	-
Total Govt revenue	**260,245**	**233,894**
Resident revenue	100,068	87,437
Other revenue	3,931	-
Total operating income (pre-AASB 16)	**364,244**	**321,331**
Non-operating revenue		
Interest on RADs/Bonds (AASB 16)	31,351	20,288
Other non-operating revenue	4	910
Total non-operating income	**31,355**	**21,198**
Total revenue	**395,599**	**342,529**

Note 1: Estia records the Means Tested Care Fee ("MTCF") within Govt Revenue, however this has been reallocated from Govt revenue to Resident revenue for comparability with Regis

Source: 1H FY22 financial statements and Investor Presentations



Source: 1H FY22 financial statements and Investor Presentations

Government revenue

- Government revenue Per Occupied Bed Day ("POBD") is analysed further on the following page.
  - From 1 July 2021, Providers were entitled to a permanent funding increase being the Basic Daily Fee Supplement ($10 prpd)
  - Unlike previous periods there was no additional temporary government funding recorded during 1H FY22 relating to COVID.

Resident revenue

- Resident revenue POBD is detailed further on the following page.

Other revenue (operating)

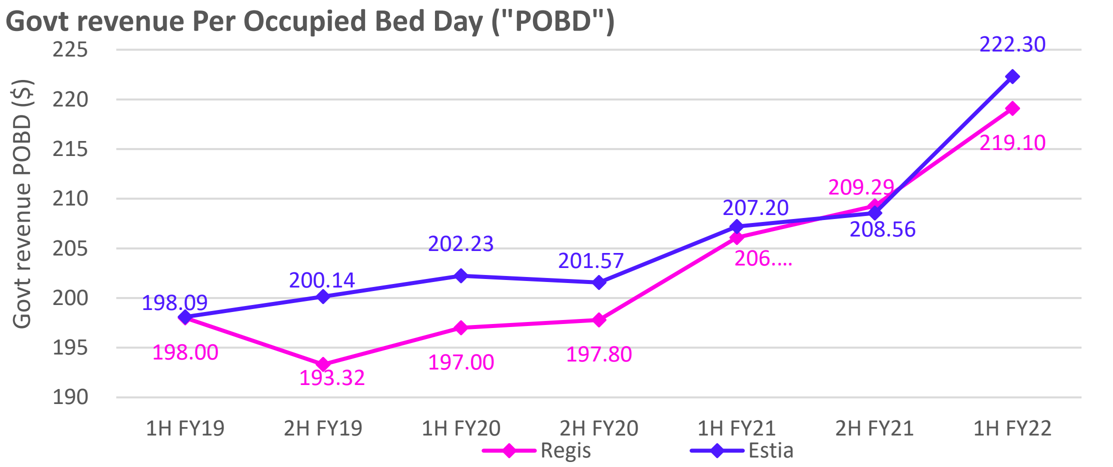
- Primarily relates to Regis' deferred management fee revenue and rental income for Retirement Living operations

Non-operating revenue

- Interest on RADs relates to imputed interest that was recognised under the adoption of AASB 16. It is 'non-cash' and represents a notional income stream, with a corresponding increase in finance costs.
  - This should be excluded when considering underlying aged care operating performance.
- Other non-operating income largely relates to gains on sale of fixed assets and fair value movements on asset revaluations and are generally non recurring. These items have also been excluded from underlying EBITDA analysis.

StewartBrown

Revenue per occupied bed day ("POBD")

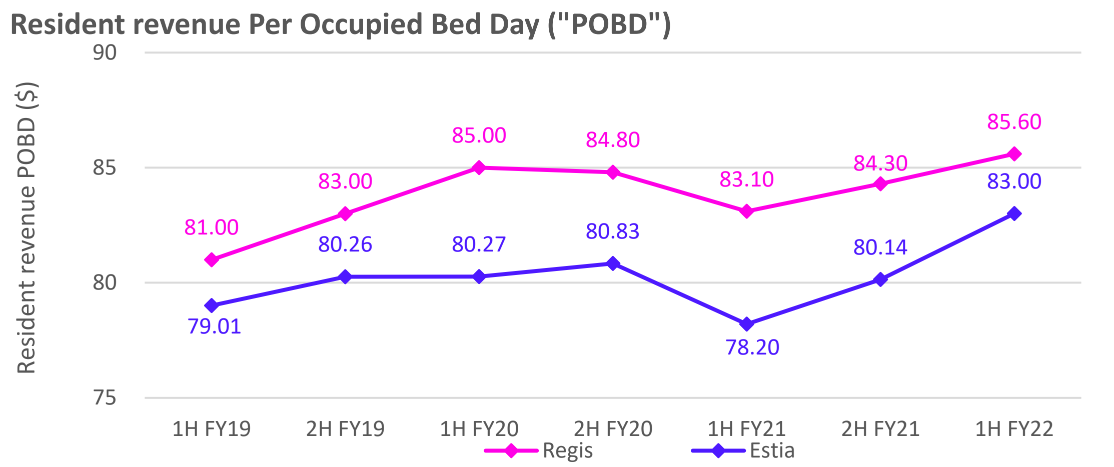


Note 1: Govt revenue POBD shown above excludes both the temporary govt funding and COVID funding/grants
Note 2: We assume this represents residential aged care only (i.e. excludes Home Care, CHSP and other Govt funding)
Note 3: Regis 2H FY21 revenue POBD = Back calculated based on Govt Revenue for half (excluding all temporary funding and excluding the $5.4m received in Apr-21 (Temporary Support Payment) divided by bed days in the 2H
Note 4: Regis' 2H FY20 data estimated as Regis only provided 1H and full year data
Note 5: For Estia, MTCF reallocated from Govt to Resident, for purposes of consistency with Regis
Note 6: BDF Supplement ($10prpd) included within Govt revenue for 1H FY22
Source: Historical Investor Presentations

Key observations

- The chart above presents half yearly govt revenue POBD excluding all forms of temporary funding. It does include the additional $10prpd BDF Supplement that commenced on 1 July 2021.
- Variations in Govt revenue POBD (after COPE) can be impacted by changes in:
  - resident profile with Supported residents' Accommodation Supplements being a subset of Government funding
  - Increase in Homes that qualified for Significant Refurbishment funding
  - acuity changes
  - Additional Services (average rate and penetration)

	Regis	Estia
2H FY21	**209.29**	**208.56**
add: COPE (1.1%)	2.30	2.29
add: BDF supp	10.00	10.00
Other items	(2.49)	1.44
1H FY22	**219.10**	**222.30**



Note 1: Regis 2H revenue POBD = Estimated in light of 1H and full year revenue (assumed even weighting between 1H and 2H), on the basis that occupied bed days is not materially different between 1H and 2H
Note 2: Estia resident revenue POBD has been adjusted to recognise the MTCF on a basis comparable with Regis
Source: Historical Investor Presentations

Key observations

- The maximum Basic Daily Fee increased by 1.6% to $53.56 on 1 Sep 2021; previously $52.71 (from 1 Mar 2021), which partly contributes towards the uplift in resident revenue in 1H FY22 vs 2H FY21.
- Of the reported increases in resident revenue POBD, the increase attributable to the indexation increase in the BDF was:
  - **Regis**: 65% of their $1.30 POBD increase
  - **Estia**: 30% of their $2.86 POBD increase
- The MPIR has seen minimal change over the last two half year periods so has not been a significant factor in the resident revenue POBD movement.
- As the number of DAP/Combination RAD/DAP payers continue to increase, the increased daily accommodation payments continues to have an upwards effect on the portfolio resident revenue POBD.

Operating expenses

$000s	Regis 1H FY21	Regis 1H FY22	Estia 1H FY21	Estia 1H FY22
Operating rev	353,081	364,244	300,925	321,331
Expenses				
Staff expenses	249,811	259,996	225,119	234,207
Resident care expenses	22,814	25,701	35,229	30,241
Admin expenses	19,327	21,716	8,893	13,299
Occupancy expenses	10,625	12,005	12,491	10,285
Operating expenses	**302,577**	**319,418**	**281,732**	**288,032**
Depreciation	22,429	20,821	20,340	21,726
Impairment loss	-	-	796	-
Class action	-	-	11,675	-
Amort. of bed licences	-	20,346	-	20,116
Total expenses	**325,006**	**360,585**	**314,543**	**329,874**
Key expenses as % of Op Revenue				
Staff exp	*70.8%*	*71.4%*	*74.8%*	*72.9%*
Resident care	*6.5%*	*7.1%*	*11.7%*	*9.4%*
Admin exp	*5.5%*	*6.0%*	*3.0%*	*4.1%*
Occupancy exp	*3.0%*	*3.3%*	*4.2%*	*3.2%*
Op exp as % of op. rev	***85.7%***	***87.7%***	***93.6%***	***89.6%***

Note 1: Expenses as a % of Operating revenue = expense category divided by adjusted operating revenue

Note 2: Operating revenue has been presented for illustrative purposes only, for the purposes of calculating the key metrics in the table above

Source: Historical financial reports

	Regis 1H FY21	Regis 1H FY22	Estia 1H FY21	Estia 1H FY22
Funded bed days	1,164,842	1,167,834	1,030,359	1,036,924
Expense per funded bed day				
Staff expenses	214	223	218	226
Resident care expenses	20	22	34	29
Sub-total	**234**	**245**	**253**	**255**
Admin expenses	17	19	9	13
Occupancy expenses	9	10	12	10
Op expenses per bed day	**260**	**274**	**273**	**278**
% change in Expense POBD				
Staff exp	*n/a*	*3.8%*	*n/a*	*3.4%*
Resident care	*n/a*	*12.4%*	*n/a*	*(14.7%)*
Sub-total Staff & Resident	***n/a***	***4.5%***	***n/a***	***0.9%***
Admin exp	*n/a*	*12.1%*	*n/a*	*48.6%*
Occupancy exp	*n/a*	*12.7%*	*n/a*	*(18.2%)*
Op exp per bed day growth	***n/a***	***5.3%***	***n/a***	***1.6%***

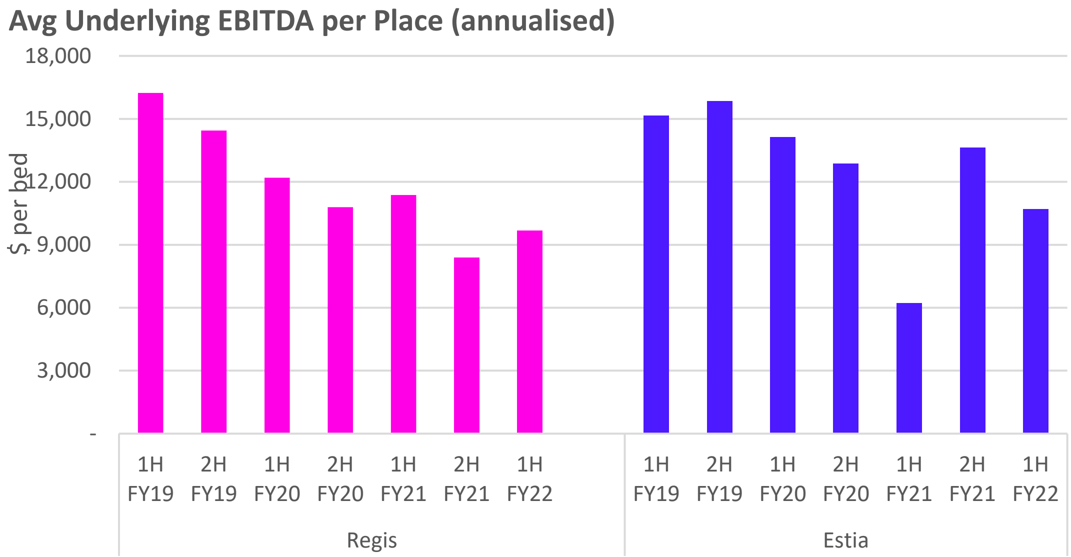
Note 1: Expense per funded bed day = $value of expense as noted in the table opposite, divided by bed days for the period

Source: Historical financial reports

Overview

- 1H FY22 operating expenses Per Occupied Bed Day (POBD) continued to increase at rates that exceed CPI or Enterprise Agreement increases, versus 1H FY22.
- Providers continue to face increased costs associated with the ongoing COVID management (infection control, additional staffing)
- It is understood that Estia has reallocated insurance premiums (average $2.1m per period in FY21) from Occupancy expenses to Administrative expenses.

EBITDA per bed (annualised)



Note 1: Per bed data above = Average Reported Underlying EBITDA divided by average number of beds, annualised
Note 2: Average Reported Underlying EBITDA = Reported Underlying EBITDA for six month period, adjusted for non-operating, non-recurring items (see Appendix for further details), multiplied by two to represent annualised EBITDA
Note 3: Average beds (or places) = Simple average of opening and closing operational places for each half year
Source: **1H** FY22 financial reports and historical investor presentations

Overview

- Regis and Estia reported an annualised underlying EBITDA per bed of $9,700 and $10,700 respectively (1H FY22 reported results, annualised on a simple basis). See Appendix 2 for details
  - This includes COVID costs for both Providers, to allow a like-for-like comparison
- Reported results were favourably impacted by the new BDF Supplement of $10 prpd which took effect from 1 July 2021
  - This supplement should improve EBITDA per place by up to $3,650 per annum

Additional comments

- The ongoing impact of an unsustainable funding model with revenue indexation being less than expense escalation means that margins and profitability continue to erode.
- The results for four of the last six half year periods have been underpinned by temporary additional funding by the Government. The temporary Government COVID / ACRC funding provided in previous periods did not occur in the 1H FY22 period and has not been budgeted to continue in the Federal Budget. Some of the additional costs however will continue.
- The sector is waiting on further detail regarding some of the key reforms flagged in the ACRC. Additional costs are a given and it is hoped that these additional costs will be more than covered by additional funding to encourage future investment.
- The key reforms include the impending transition from the ACFI model to AN-ACC and also the funding outcome when the Independent Hospital and Aged Care Pricing Authority is responsible for price setting. It recommends pricing but the Government makes the ultimate decision.
- The other key reform is minimum staffing hours which will have cost implications.

Table of Contents

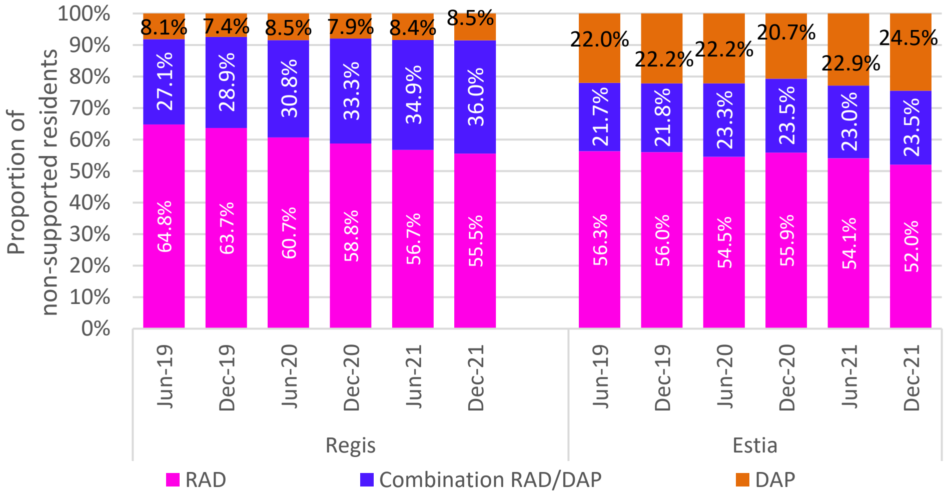
StewartBrown
Integrity • Quality • Clarity

Resident profile

	Regis		Estia	
	Jun-21	Dec-21	Jun-21	Dec-21
Resident profile				
RAD	1,790	1,753	1,498	1,461
Combination RAD/DAP	1,100	1,135	638	659
DAP	265	269	634	687
Supported	2,823	2,807	2,583	2,499
Other	64	92	11	9
Respite	303	348	383	321
Total residents	**6,345**	**6,404**	**5,747**	**5,636**

Source: **1H** FY22 investor presentations

Split of non-supported residents at period end



Note 1: Given the varying disclosure between providers regarding incoming resident profile, the chart above presents the portfolio mix of non-supported residents by RAD, Combination RAD/DAP and DAP residents

Source: Historical investor presentations

Regis

- Regis reported an increase of 59 residents between Jun-21 (6,345) and Dec-21 (6,404) which was largely driven by respite residents (45 increase) that was offset by a decline in supported residents, with non-supported residents being broadly similar (although RAD payers declined)

Estia

- Although the number of residents fell by 111 between Jun-21 (5,747) and Dec-21 (5,636), this was due to declines in supported and respite residents that were partly offset by an increase in DAP payers (53 increase).

Resident profiles (non-supported residents)

- Different resident profiles produce different outcomes in terms of revenue, EBITDA and cashflow. The most critical impact is the number of lump sum equivalent accommodation payers (i.e. RAD and RAD component of Combinations) as cashflow is traded for revenue / EBITDA.
- The trend from lump sum accommodation payers (RAD and partial RAD) to daily (DAP) continues. This is an industry trend however variations exist based on location (full RAD payers less common in lower median house price areas) and sales and marketing approaches.
- There are variations in how residents are recorded on entry and only Estia provide detail on profile 'switches'. Trends for individual providers are more relevant.
- Regis' total portfolio RAD resident numbers declined by c3.3% over 12 months. This is on resident turnover of only c37% indicating the proportion of incoming residents paying a RAD is much lower. Regis has been able to limit the impact with a corresponding increase in Combos which pay approximately 50% as a RAD.

Potential implications

- While there is an incremental revenue and EBITDA benefit, the resultant RAD cash outflows from a changing resident profile continues to put pressure on balance sheets. There are covenant limitations that will restrict how much of a Provider's RAD pool can be debt financed. This is a broader industry issue rather than specific to the listed operators given their relatively low levels of debt / access to capital.

StewartBrown

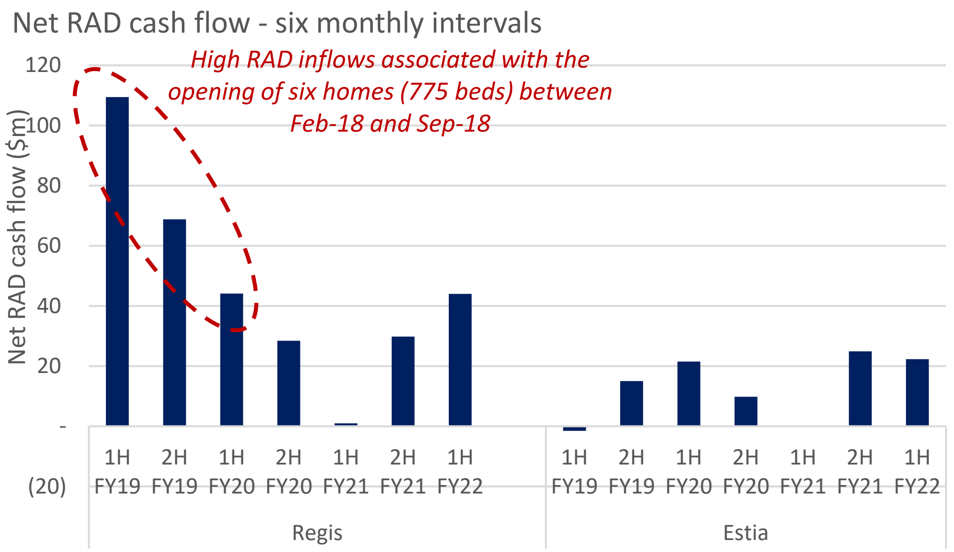
Table of Contents

StewartBrown
Integrity • Quality • Clarity

RAD liabilities

		As at 31 Dec 2021	
		Regis	Estia
RAD liabilities			
RAD liability	[$m]	1,084.4	769.5
Probate	[$m]	147.9	116.7
Total RAD liability	[$m]	**1,232.3**	**886.2**
# RADs held	[#]	2,826	2,670
Avg RAD held	[$000]	**436**	**332**

Source: **1H** FY22 financial reports and investor presentations
Note 1: Regis # RADs held is a weighted RAD equivalent; it is assumed that Estia # RADs held includes combos without any weighting. Consequently the average RAD held is not directly comparable.



Source: **1H** FY22 financial reports and investor presentations

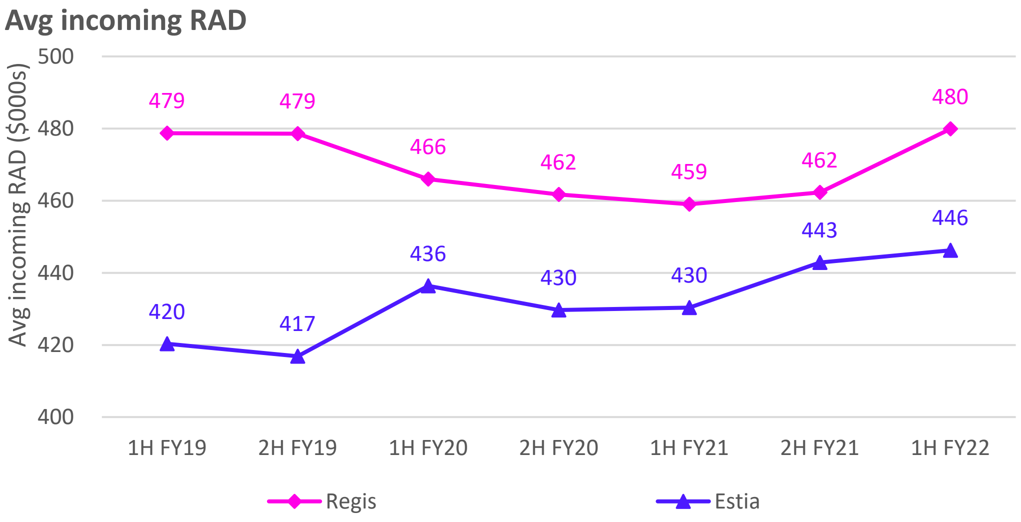
Regis

- As noted in previous reports, Regis has seen a decline in net RAD cash inflows following the cessation of its development program since Sep-18
- Regis net cash inflow in 2H FY21 however was positively impacted by a significant increase in Combination RAD/DAP and RAD payers.
  - Positive RAD cashflows have continued into 1H FY22
- Regis reported a $44m increase in net RAD cash flow during 1H FY22, which was associated with:
  - Existing RAD payers: $32.1m uplift
  - Increase in probate liability: $11.9m

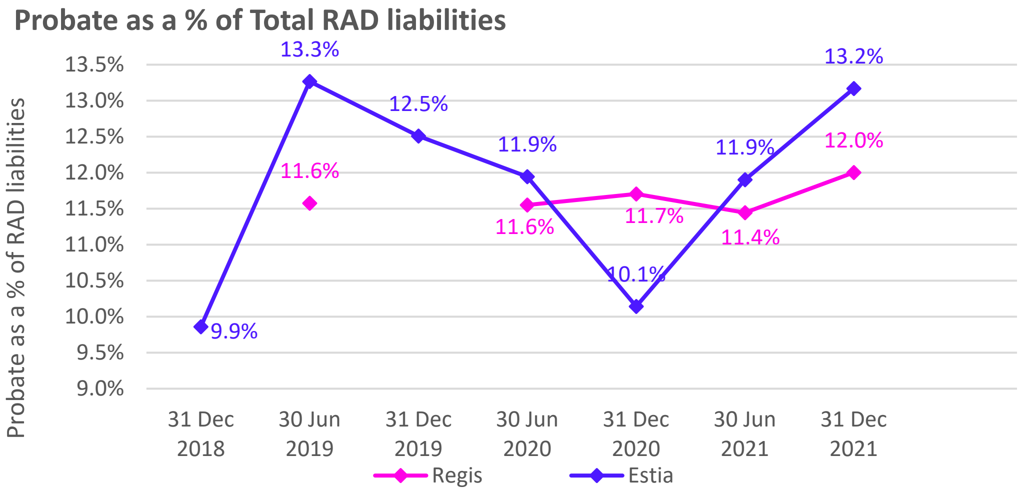
Estia

- Estia's RAD liability at 31 Dec 2021 ($886.2m) was $22.3m higher than 30 June 2021 ($863.9m) due to movements in:
  - Probate: $13.9m (or 62% of the $22.3m increase) was attributable to higher Probate liabilities
  - New homes / closures: Net RAD's on new homes / closures was $4.5m
  - Mature homes: Given the above RAD cash flows for mature homes (after probate movements) were only marginally positive. Factors affecting this movement include:
    - occupancy
    - changes in resident profile (non supported v supported)
    - change in the current resident profile, with an increase in DAP payers
    - pricing (relative to outgoing residents)

RAD liabilities – Pricing



Note 1: Avg portfolio RAD = RAD liability divided by number of RADs held (Regis and Estia)
Source: Historical investor presentations



Regis

- Regis reported a marginal increase (i.e. < 1%) in average RADs in 2H FY21 ($462k) vs 1H FY21 ($459k), however this was c. 2.9% lower than 1H FY19. 1H FY19 would have included a higher proportion of new rooms flowing from its previous development programme.
- Contrary to common perception, RAD pricing has not closely correlated to property price growth over the short term as other factors influence pricing and occupancy pressure has become a factor in recent times.

Estia

- Estia's average incoming RAD in 1H FY22 was broadly consistent with 2H FY21, however these were c. 3% higher than previous periods. The opening of the Blakehurst (NSW) home (average incoming RADs higher) would have helped contribute towards this increase.

Probate – Background

- It is common across the industry for RAD amounts not to be paid out until a copy of Probate has been received
  - This protects the Provider from the risk of inadvertently paying the RAD to the wrong person
  - In addition however there is a positive cashflow impact due to the deferral of the payment (which does come at a cost as interest is payable on deferred amounts).
- Both Providers reported an increase in probate (both in $value and % terms of the total RAD balance, noting:
  - **Regis**: $11.9m increase in probate between Jun-21($136m) and Dec-21
  - **Estia**: $13.9m increase in probate since Jun-21, and equates to 13.2% of the total RAD liability as at Dec-21 (i.e. $116.7m out of $886.2m)

Table of Contents

StewartBrown
Integrity • Quality • Clarity

Appendix 1: Glossary

	Definition
AASB	Australian Accounting Standards Board
AASB 16	Australian accounting standard titled, *Leases*
ACAR	Aged Care Approvals Round
ASX	Australian Securities Exchange
BDF	Basic Daily Fee
Cash	Cash and cash equivalents
CGU	Cash Generating Unit
DAP	Daily Accommodation Payment
Debt	Loans and borrowings excluding resident loans (RADS, accommodation bonds and ILU resident loans)
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EBITDAR	EBITDA and before rent expense
EBT	Earnings before taxation
EV	Enterprise Value
FYxx	Financial year ended 30 June 20xx (e.g. FY21, represents the financial year ended 30 June 2021)
ILU	Independent Living Unit
MTCF	Means Tested Care Fee

	Definition
NPBT	Net Profit Before Tax
RAD	Refundable Accommodation Deposit
PA	Provisionally Allocated
POBD	Per occupied bed day
PPE	Personal protective equipment
PP&E	Property, plant & equipment
prpd	Per resident, per day
RC	Royal Commission
ROA	Return on Assets
RV	Retirement Village
Underlying EBITDA	EBITDA excluding the impact of non-recurring items and transactions that do not directly influence the underlying operations and delivery of residential aged care services This definition represents StewartBrown's view, as set out in the Reconciliation of NPBT to Underlying EBITDA within the Appendix
WIP	Work in progress
1H	Six month period, 1 July to 31 December, inclusive
2H	Six month period, 1 January to 30 June, inclusive

Appendix 2: Reconciliation of NPBT to Reported Underlying EBITDA

$000s	1H FY22 Regis	1H FY22 Estia
NPBT	**(5,132)**	**(11,059)**
Add: Net finance cost	35,670	23,714
Add: Depreciation	20,821	21,726
Less: Imputed interest on RADs (AASB 16)	(31,351)	(20,288)
Add: Bed licence amortisation	14,300	20,116
EBITDA (pre impairment and AASB 16)	**34,308**	**34,209**
Mgmt adjustments (excl. impairment)		
Net loss from homes in ramp up	-	204
Other gains/losses	-	(910)
COVID-19 expenses	4,476	-
Total mgmt adjustments (excl. impairment)	**4,476**	**(706)**
EBITDA (Underlying per mgmt, excl. AASB 16)	**38,784**	**33,503**
Our adjustments		
less: Variations to management adjustments	(4,476)	(204)
Underlying EBITDA	**34,308**	**33,299**
Opening Places	7,121	6,289
Closing Places	7,059	6,163
Avg for period	**7,090**	**6,226**
Avg Underlying Reported EBITDA per Place ($ per Place)		
Avg Underlying reported EBITDA (mgmt) - annualised	10,940	10,762
Avg Underlying reported EBITDA (our view) - annualised	9,678	10,697

Note 1: Management identified adjustments as noted in each Provider's respective Investor Presentations
Note 2: Avg places represent the simple average for the period
Note 3: Avg underlying reported EBITDA = Underlying EBITDA divided by Avg number of places for period, multiplied by two, given that EBITDA represents 6 months earnings
Source: 1H FY22 Financial Reports and historical investor presentations

Overview

- Outlined opposite is a reconciliation of NPBT to Reported Underlying EBITDA, noting earnings adjustments identified by each respective Provider.
- Underlying earnings in the current environment is somewhat subjective due to the considerable impact of COVID 19. A smaller number of one-off items have been identified by management and include:
  - **Net loss from homes in ramp up (Estia only)**: relates to additional costs incurred as new homes (i.e. Blakehurst) ramp ups from opening and the modest costs associated with closing two VIC sites (Prahran and Keilor). As opening new homes occurs regularly (albeit less frequently given the operating/funding environment), but could be argued it is a common part of developing, building and managing an aged care home
  - **Other gains (Estia only)**: These relate to gain on sale of assets
  - **COVID-19 expenses (Regis only)**: These relate to additional COVID related expenses incurred during 1H FY22 to manage the homes. Part of these costs are expected to be recovered through funding applications, with this income expected in 2H FY22. For comparability purposes between the two providers, we have adjusted Regis' COVID expenses to present a like-for-like comparison of EBITDA (i.e. both including COVID expenses)

StewartBrown
Integrity • Quality • Clarity

Appendix 3: Detailed P&L and Summary Balance Sheet

	1H FY22	
$000s	Regis	Estia
Income		
Govt revenue	260,245	233,894
Govt revenue (temp funding)	-	-
Total Govt revenue	**260,245**	**233,894**
Resident revenue	100,068	87,437
Other revenue	3,931	-
Total operating income (pre-AASB 16)	**364,244**	**321,331**
Non-operating revenue		
Interest on RADs/Bonds (AASB 16)	31,351	20,288
Other non-operating revenue	4	910
Total non-operating income	**31,355**	**21,198**
Total revenue	**395,599**	**342,529**
Expenses		
Staff expenses	(259,996)	(234,207)
Resident care expenses	(25,701)	(30,241)
Admin expenses	(21,716)	(13,299)
Occupancy expenses	(12,005)	(10,285)
Depreciation	(20,821)	(21,726)
COVID expenses	(4,476)	-
Amortisation of bed licences	(20,346)	(20,116)
Total operating expenses	**(365,061)**	**(329,874)**
EBIT	**30,538**	**12,655**
Net finance costs (AASB 16)	(31,351)	(20,288)
Net finance costs (excl. AASB 16)	(4,319)	(3,426)
NPBT - Reported	**(5,132)**	**(11,059)**
Tax expense	1,463	2,948
NPAT - Reported	**(3,669)**	**(8,111)**

Source: 1H FY22 Financial Reports

	As at 31 Dec 2021	
$000s	Regis	Estia
Balance sheet summary		
Cash and financial assets	43,956	23,252
Trade receivable & other current assets	24,475	26,294
Property assets	1,275,924	892,837
Goodwill	239,938	681,014
Bed licences	203,453	201,165
Other intangible assets	-	3,176
Other non-current assets	-	417
Total assets	**1,787,746**	**1,828,155**
Liabilities		
Resident liabilities - RADs	(1,232,336)	(886,228)
Resident liabilities - ILU contributions	(41,613)	(487)
Bank overdraft	(15,855)	-
Borrowings	(88,882)	(28,276)
Deferred Tax Liabilities	(48,800)	(96,710)
Provisions	(118,804)	(68,446)
Trade payables & current liabs	(110,289)	(86,816)
Lease liabilities	(6,706)	(63,298)
Total liabilities	**(1,663,285)**	**(1,230,261)**
Net Assets	**124,461**	**597,894**
less: intangible assets	(443,391)	(885,355)
Net Tangible Assets/(deficiency)	**(318,930)**	**(287,461)**

Source: 1H FY22 Financial Reports

Appendix 4: Cash flow statement

	1H FY22	
	Regis	Estia
Cash flows from Operating Activities		
Receipts from Residents and Govt Grants	396,199	349,759
Payments to suppliers & employees	(309,822)	(274,106)
Interest received	4	-
Interest and other finance costs paid	(3,932)	(3,068)
Income tax paid	(5,412)	(3,949)
Net cash flows from Op. Activities (excl. RADs/ECs)	**77,037**	**68,636**
RAD/Bond inflow	215,197	139,277
RAD/Bond outflows	(168,077)	(115,408)
ILU/ILA Entry Contribution inflows	6,414	-
ILU/ILA Entry Contributions outflows	(3,862)	-
Net cash flows from Op. Activities (incl. RADs/ECs)	**126,709**	**92,505**
Cash flows from Investing Activities		
Purchase of PP&E	(29,343)	(10,973)
Proceeds from disposal of PP&E	-	3,610
Purchase of intangible assets	-	(1,031)
Purchase of investment property	(1,309)	-
Net cash flows from Investing Activities	**(30,652)**	**(8,394)**
Cash flows from Financing Activities		
Net repayment of bank borrowings	(42,455)	(84,500)
Dividends paid on ordinary shares	(13,926)	(6,012)
Payment of lease liabilities	(544)	(2,134)
Net cash flows from Financing Activities	**(56,925)**	**(94,287)**
Net movement in cash flows	**39,132**	**(10,176)**
Cash & cash equivalents at 30 June 2021	(11,031)	33,428
Cash & cash equivalents at 31 Dec 2021	**28,101**	**23,252**

Note 1: Cash at 31 Dec 2021 above = Reported Cash minus Reported Overdraft
Source: FY21 Financial Reports

StewartBrown Contact Details

For further analysis of the information contained in the Survey report please contact our specialist analyst team

StewartBrown Aged Care Executive Team

Grant Corderoy
Senior Partner - Consulting Division
Grant.Corderoy@stewartbrown.com.au

Stuart Hutcheon
Partner - Audit and Consulting Divisions
Stuart.Hutcheon@stewartbrown.com.au

David Sinclair
Partner - Consulting Division
David.Sinclair@stewartbrown.com.au

Steff Kearney
Director - Consulting Division
Steff.Kearney@stewartbrown.com.au

Andrew Coll
Director - Aged Care Division
Andrew.Coll@stewartbrown.com.au

Office Details.

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

Analyst, IT and Administration Team

Tracy Thomas
Senior Manager

Chris Parkinson
Senior Manager

Jimmy Gurusinga
Senior Manager

Robert Krebs
Manager

Keiron Brennan
Business Analyst Team Leader

Vega Li
Business Analyst

Ritika Lall
Business Analyst

Alic Zhang
Business Analyst

Cassie Yu
Business Analyst

Joyce Jiang
Business Analyst

Vicky Stimson
Survey Administrator

Steven Toner
Survey Administrator

Rachel Corderoy
Media and Marketing

Reece Halters
IT Director

Annette Greig
Systems Accountant

Rhys Terzis
Systems Analyst

Min Joo Kim
Data Analyst