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# ASX Announcement



24 August 2021

**Estia Health FY2021 Full Year Results**

Estia Health Ltd (ASX: EHE) ("Estia" or the "Company"), one of Australia's largest aged care providers, today reported a profit after tax of $6.0m for the year ended 30 June 2021, reflecting the impact of COVID-19 and the ongoing funding and financing challenges facing the residential aged care sector. Net RAD inflows in the period were $30.6m and Net Bank Debt was $81.1m at 30 June 2021. Dividends were reinstated with a fully franked final dividend of 2.3 cents per share declared.

**Key points:**

- **$6.0m net profit after tax (NPAT)**
- **Dividend reinstated: Final Dividend of 2.3 cents per share (fully franked), 100% of NPAT**
- **$62.5m EBITDA[1] from Mature Homes[2]**
- **Group occupancy at Mature Homes averaged 91.2% during the period:**
    - **94.0% across 43 homes outside Victoria**
    - **85.9% across 27 homes in Victoria**
- **RAD balance increased to $863.9 m with net inflows of $30.6m during the period**
- **Strong balance sheet with $81.1m net bank debt and $244.4m available liquidity at period end**
- **Direct incremental costs arising from the Company's COVID-19 response were $24.3m**
- **Received $21.4m of temporary Government funding and grants**
- **2015-2016 Shareholder class action settled without admission of liability at net cost of $12.3m**

CEO Ian Thorley said, "In the face of one of the most challenging periods the sector has ever faced Estia delivered a resilient performance which, combined with a strong balance sheet, has given us the confidence to reinstate the dividend.

"The financial result, supported by temporary Government funding and grants provided to cover the COVID-19 cost impacts during the pandemic, places Estia in a sound position to respond to the Government's post-Royal Commission reforms which represent a fundamental shift in thinking towards a more transparent and competitive sector.

"While we are broadly supportive of the Government's response, significant uncertainty remains over the detail of the system and program reforms and the financial and operational impacts that these will have on the sector and individual providers.

"We look forward to contributing to the consultation processes to ensure that pricing and funding arrangements will enable efficient providers of quality aged care services to meet community expectations and to achieve an adequate rate of return."

"This was a strong result in difficult times. It was due to a dedicated workforce and leadership, balance sheet strength, a diverse portfolio and a focus on clinical governance and quality of care. All our homes have remained fully accredited at all times and at 20 August 2021, 82.4% of the Group's residents and 82.1% of employees had been partially or fully vaccinated against COVID-19."

[1] EBITDA is categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 - Disclosing non-IFRS financial information, issued in December 2011. EBITDA is a measure consisting of earnings before interest, tax, depreciation, amortisation and impairment expenses, specified non-recurring items and imputed DAP revenue on RAD/bond balances resulting from the adoption of AASB 16 and has been adjusted from the reported information to assist readers to better understand the financial performance of the business in each financial period. This non-IFRS financial information, while not subject to audit, has been extracted from the financial report, which has been subject to an audit by the external auditors.
[2] Mature homes are homes which had been open for more than 12 months at the start of FY21.

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**COVID-19**

As reported at the half year, the second wave COVID-19 outbreak in Victoria from July to October 2020 tested the sector in a way never previously experienced and proved to be an extremely difficult period for residents, families and employees.

The health, safety and well-being of Estia's residents and employees always comes first. The Company committed $24.3m of direct incremental costs across our workforce, Infection Prevention and Control, Personal Protective Equipment, cleaning, waste disposal, and employees and family welfare and support. $20.1m of these incremental costs were incurred in the first half year and $4.2m in the second half year as costs continued to decline in line with lower levels of community incidence of COVID-19 and the relaxation of State-based COVID-19 restrictions.

Occupancy rates across the Group's 6,289 operational beds and 70 homes have been affected by the pandemic to widely varying degrees depending on the location. In particular, the extent of the outbreak, long lockdowns and restrictions in Victoria in the period had a far greater impact than in other States as shown in the table below:

| | Spot at 20 August 2021 | Average H2FY21 | Average H1FY21 | Average 2021 | Average 2020 |
|---|---|---|---|---|---|
| Victorian Homes | 88.9% | 86.8% | 85.1% | 85.9% | 90.7% |
| Homes in Other States | 94.8% | 94.5% | 93.5% | 94.0% | 94.5% |
| **Total Group** | **92.8%** | **91.8%** | **90.6%** | **91.2%** | **93.2%** |

Total occupied bed days in FY21 were 2,062,958 (FY20: 2,076,808)

Income in the period was supported by temporary Government funding and grants of $21.4m during the pandemic. The Company did not receive any JobKeeper payments during the period.

Mr Thorley said, "The strength of our balance sheet allowed us without hesitation to support every member of the Estia family as our absolute priority.

"The current situation with restrictions in NSW and Victoria, and to a lesser extent in Queensland is further testing the sector. At this stage it is too early to make any statements or guidance about the consequences or impacts on the FY22 financial performance. Our focus is wholly on the well-being of our residents and our people".

The Federal Government has announced that it expects all States to issue public health orders before 17 September 2021 to make vaccinations mandatory for all residential aged care workers. It is anticipated that all States will have issued relevant public health Directions by that date.

All Estia residents were offered COVID-19 vaccines at their Estia home in the period from February to June 2021.

Mr Thorley said. "In July we established a partnership with Sonic Healthcare to conduct an in-reach vaccination program in each of our homes for Estia employees and residents. We have undertaken awareness and information programs for all our employees to support the vaccination program in advance of legislation being enacted. We look to all the States to pass legislation so that we are able to make vaccinations mandatory for all employees without risking breaching employment legislation."

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## Royal Commission and Reform

The Royal Commission into Aged Care Quality and Safety (the "Royal Commission") handed down its final report in February 2021, containing 148 recommendations.

The Royal Commission recognised that legislated funding to the sector had been insufficient to support the level of services and quality expected by the community and would need to be significantly increased in future to meet those expectations and the Royal Commission's own recommendations. The Commissioners recommended some immediate steps be taken and a longer-term review of pricing and funding be undertaken to ensure the financial sustainability of the sector.

The Government's response in accepting 126 of the recommendations was broad, with indications of support for most recommendations which will likely lead to greater costs, compliance and administrative requirements as and when enacted into legislation. Many of the responses will require legislative approvals following detailed assessment, research and consultation which is expected to take place over the next two-three years including the passing of a new Aged Care Act.

Mr Thorley said "The Government's response to the Royal Commission indicates a clear shift towards a more transparent and competitive sector. With the introduction of greater consumer information on the performance of providers and as the restrictive supply practices associated with ACAR fall away, success in the sector will be dependent on providers' ability to compete and provide better quality service and greater value for money. Some Aged Care operators will find competing in such an environment and being able to meet higher levels of governance, financial reporting and prudential standards challenging.

"But most of the more substantive changes remain as work in progress and as such are still the subject of significant design, development, and consultation prior to implementation. As a result, we look to receiving greater detail of what will be enacted and the financial and operational impacts for the sector which will persist for some time to come.

"Critically the outcome of these future changes must address the long-standing issue of margin erosion and sustainable financial performance, without which the much-needed commitment of capital and resources to the sector will continue to be withheld."

## Shareholder Class Action

As previously reported, the Company reached an agreement to settle the shareholder class action relating to market disclosures made between August 2015 and October 2016. The total settlement sum of $38.4m approved by the Federal Court on 7 May 2021 was without admission of liability. The Company contributed $12.3m to this settlement, with the balance being contributed by the Company's insurers.

## Net Debt and Liquidity

The Group has maintained a strong balance sheet throughout the pandemic, with net bank debt at 30 June 2021 being $81.1m. The Group has total debt facilities of $330.0m with a maturity date of 15 November 2022, of which $221.0m was undrawn at 30 June 2021.

RAD balances increased to $863.9m despite reduced occupancy levels, with a net RAD inflow of $30.6m during the period, including $5.9m from the new home at Blakehurst which opened in February 2021.

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**Portfolio Renewal**

On 22 February, the Group opened its newest home at Blakehurst NSW, on the site of an old home which was demolished. The 105-bed home reached 63.8% occupancy by 30 June 2021, less than five months after opening and prior to the COVID-19 restrictions coming into force in Greater Sydney. The home has been EBITDA positive since May and as of 20 August was 71.4% occupied.

Mr Thorley said “The new homes that we have opened in the last few years have achieved 95% or greater occupancy rates after a short ramp up and continue to perform exceptionally well at virtually full levels. We believe that is testament to the quality of the homes, commissioning skills and the ability to match services to our local communities.

“Notwithstanding the uncertainty around future funding, the performance of these homes gives us confidence to proceed with the development of two new homes in FY22 at St Ives and Aberglasslyn in NSW with a total of 236 new beds. We believe that it is important to actively manage the portfolio and where homes are not meeting the needs of the community, expectations of amenity or are sub-scale, we will re-invest in those assets if supported by appropriate returns.”

In June 2021 the decision was taken to close the Group’s 46 bed home at Keilor Downs in Victoria as it will not meet emerging community expectations for residential aged care homes in coming years. The home closed on 2 August 2021 and all residents were assisted in finding new homes with Estia or other local providers. Employees have been supported either with continued employment at other Estia homes or redundancy packages with appropriate support. Costs associated with the closure of $0.3m were provided for in the period ended 30 June 2021. The Company determined that the best alternative use for the site is to undertake a sale process.

During the period, the Company completed the sale of three surplus land sites within New South Wales and Victoria which resulted in a profit before tax of $9.5m.

Mr Thorley said, “The process of portfolio review and renewal is a constant one and a decision to close a home is carefully considered and undertaken with sensitivity and care for residents and employees, some of whom may have lived or worked there for years. Our goal is always to keep as many residents in other Estia homes as we can and retain our employees at other locations and I am pleased we have been able to do that in this case.”

**Dividends**

On 24 August 2021 the Directors resolved to pay a final dividend for the year of 2.3 cents per share fully franked, representing 100% of Net Profit After Tax.

**--- ENDS ---**

**Approved for release by the Board of Directors of Estia Health Limited**

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**Further enquiries:**

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**Investor and Analyst Teleconference Details**

Estia's CEO Ian Thorley and CFO Steve Lemlin will host an analyst and investor conference call commencing at 9:30am (AEST) today.

Registration details for the conference call are located in the Company's Investor Centre
https://investors.estiahealth.com.au/investor-centre/?page=key-dates