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ASX ANNOUNCEMENT

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The Manager
Company Announcements Office
Australian Securities Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

Regis Healthcare announces $38.8 million net loss after tax

Regis Healthcare Limited (ASX:REG) today announced a net loss after tax of $38.8 million for the financial year ended 30 June 2022 (FY21: $19.9 million profit after tax).

Key Points:

- Revenue from services of $725.3 million, up 3.4% on pcp
- Underlying EBITDA[1] of $78.1 million (FY21: $72.1 million)
- NPATA[1] of $3.9 million
- Net loss after tax of $38.8 million (FY21: $19.9 million net profit after tax)
  - Includes $42.7 million of amortisation of operating places (net of tax)
- Average occupancy of 89.8%[2] (FY21: 88.9%)
- Net operating cash flow of $114.8 million including net RAD receipts of $83.9 million
- Net debt of $102.9 million - reduction of $39.5 million or 27.7% from 30 June 2021
- Board of Directors resolved to pay a final dividend of 2.32 cents per ordinary share (50% franked) payable 30 September 2022

Commenting on the financial results, Regis' Managing Director and Chief Executive Officer, Dr Linda Mellors, said, "The Company has managed the challenging operating environment as well as possible given the circumstances but cannot continue to cover costs that are underfunded by Government.

The additional Government Basic Daily Fee funding from 1 July 2021 was largely offset by the shortfall between Enterprise Agreement increases and inadequate Government funding indexation, as well as increased consumables, compliance and reporting costs. The regulatory reporting and compliance requirements and costs will increase further as part of the upcoming transition from ACFI to the AN-ACC funding model."

COVID-19

Regis has continued to be impacted by COVID-19 including the Omicron outbreak from mid-December 2021. Regis has implemented Outbreak Management Plans across impacted homes. Residents have continued to be provided with care, services and support, and the business has provided updates to impacted homes' residents, families and employees. High levels of vaccination rates have provided additional protection to residents and staff against the disease, and the introduction of anti-viral medications have been of significant benefit to residents. Regis continues to work closely with health and regulatory authorities.

The COVID-19 Omicron variant continues to place additional strain on a workforce that had already been experiencing significant pressure. The ongoing presence of the COVID-19 virus may lead to additional staffing disruption and financial pressures.

Dr Mellors said, "Regis has in place in-house specialist infection control expertise, robust operational controls and detailed business continuity plans. The Company continues to review the progress of the COVID-19 pandemic and take necessary steps to protect the health, well-being and safety of residents, clients and employees."

As at 19 August 2022, 81%[3] of residents eligible for a fourth booster dose have received one. Regis has mandated a COVID-19 vaccination policy for the workforce which includes the booster dose. The Company has also offered eligible employees access to the fourth dose.

Status of Government COVID-19 Outbreak Grants

Regis incurred COVID-19 outbreak costs of $27.8 million during the financial year including incremental staff expenses, personal protective equipment, infection prevention and control, and employee welfare.

During the financial year, Regis received $3.2 million in COVID-19 Government outbreak grants. The Department of Health and Aged Care has advised of ongoing delays in processing COVID-19 outbreak claims.

Excluding the $3.2 million received, Regis has/will submit further COVID-19 outbreak claims of approximately $19.0-21.0 million in relation to the financial year ended 30 June 2022. Government funding has not been provided for the substantial COVID-19 preventative costs that have been incurred.

The Australian Government has extended the COVID-19 Aged Care Support Program Extension Grant for reimbursement of COVID-19 outbreak costs to 31 December 2022.

Financial Results

$ millions	FY22	FY21	△ FY21 to FY22
Revenue from services	725.3	701.4	3.4%
Other income[4]	71.6	83.0	(13.7%)
Underlying EBITDA[1]	78.1	72.1	8.3%
NPATA[1]	3.9	19.9	(80.4%)
Capital expenditure	48.6	18.7	160.0%
Net RAD cash inflow	83.9	37.7	122.5%
Net operating cash flow	114.8	105.0	9.3%
Net debt	102.9	142.4	27.7%
Average occupancy[2] %	89.8%	88.9%	0.9 pts
Staff expenses / revenue from services %	75.9%	74.3%	1.6 pts
Basic EPS (cents per share)	(12.90)	6.63	

Trading Performance

Revenue from services of $725.3 million for the year ended 30 June 2022 included:

- Additional $10 per resident per day (Basic Daily Fee) - $22.9 million
- COPE indexation of 1.1%

Average occupancy of 89.8%[2] (FY21: 88.9%) included increased contributions from Western Australia and Victoria offset by New South Wales based homes that were significantly impacted by COVID-19 Omicron outbreaks in the second half of the year. The occupancy spot rate at 19 August 2022 was 91.4%.

Government underfunding of resident care continued in the 2022 financial year with increased staff expenses due to the impact of Enterprise Agreements only being partly offset by the 1 July 2021 indexation increase (1.1%) applied by the Australian Government to aged care funding. The Company continued to experience significantly increased staff expenses, including additional overtime and use of agency contractors, due to staff shortages caused by pre-existing sector workforce challenges, further compounded by border closures and visa delays, and the direct and indirect impacts of COVID-19.

Net profit after income tax but before amortisation of operating places (NPATA) of $3.9 million included the following one-off/non-recurring items (before tax):

- COVID-19 outbreak costs - $27.8 million;
- COVID-19 Government outbreak grants - $3.2 million;
- Net fair value gain on investment property - $3.0 million; and
- Professional services costs incurred in relation to potential employee entitlements underpayments program of work - $2.2 million.

Cash Flow and Net Debt

Net cash flows from operating activities for the year ended 30 June 2022 were $114.8 million (FY21: $105.0 million). Net cash inflows were negatively impacted by the COVID-19 Omicron wave across Australia.

Refundable Accommodation Deposits (RADs) and accommodation bond net cash inflows from mature homes were $83.9 million (FY21: $37.7 million), despite COVID-19 related lockdowns that impacted a number of Regis' homes.

During the year, Regis extended the maturity period of its $150 million working capital facility from March 2023 to March 2026. In addition, the Company repaid $36.5 million (FY21: $100.4 million) of bank borrowings. Net debt at 30 June 2022 of $102.9 million (FY21: $142.4 million) represented a 27.7% reduction on the prior year with a leverage ratio[5] of 1.6x (FY21: 2.0x).

Capital Expenditure

During the year, the Company invested $48.6 million (FY21: $18.7 million) in capital expenditure, including the purchase of land in Belrose, NSW, which is designated for residential aged care development.

In accordance with the Company's strategic plan, the business invested heavily in technology during the year including an ERP system implementation and various WiFi enabled upgrades across residential aged care homes and retirement villages.

The Company's growth strategy continues to include the following four levers:

- Greenfield aged care and retirement living developments;
- Aged care facility and home care acquisitions;
- Expansion and reconfiguration of existing facilities; and
- Aged care portfolio acquisition opportunities as they arise.

Sector Reform

Regis strongly supports the need for urgent sector reform across the domains highlighted by the Royal Commission including workforce, funding, governance, quality and safety, regulation and system design. It is critical for the sector and indeed the Australian community that the reforms are implemented properly, with transparency and public accountability.

Regis is very supportive of the creation of the new aged care peak body, the Aged & Community Care Providers Association (ACCPA), which came into effect from 1 July 2022. This new peak body is open to all providers. A single, unified peak body was a key recommendation of the Royal Commission, which the aged care sector has delivered.

While the former Australian Government committed significant funding to address known challenges in the aged care sector, there is still much detail to be worked through including the implementation and financial impact of workforce changes and labour supply shortages, and whether the AN-ACC transition and starting price are adequate.

The new Australian Government is reviewing the reform timetable and has progressed key legislative enablers in the first sitting period of Parliament.

In addition, the Company notes the Fair Work Commission is currently considering aged care worker pay rates and looks forward to its recommendations and the Government's response.

As one of the largest providers in Australia, Regis is well placed to meet many of the intended reforms, including corporate governance, clinical governance, prudential controls, food and nutrition standards, registered nurses on site 24/7 and career pathways across all roles.

Transitioning from ACFI to AN-ACC

The Australian Government is progressing a $17.7 billion, five-year aged care reform program in response to the recommendations of the Royal Commission, including the introduction of a new AN-ACC funding model and care minutes mandate.

In the 2022-23 Federal Budget, the former Australian Government announced an AN-ACC starting payment of $216.80 (from 1 October 2022) compared to an industry average ACFI of $188.60 (excluding the $10 per resident per day Basic Daily Fee supplement). The AN-ACC starting payment includes the $10 Basic Daily Fee supplement.

Preparations are advanced with the majority of Regis' residents assessed at least once and allocated into an AN-ACC class via shadow assessments that have been performed by external assessors.

Potential Employee Entitlement Underpayments

As previously reported, Regis announced to the ASX on 9 August 2021 that it had identified potential underpayments of employee entitlements to certain current and former employees under its enterprise agreements.

Regis, with the assistance of external advisors, has commenced a review to determine the extent of underpayments. Based on preliminary analysis, Regis provided $35.0 million as at 30 June 2021 in relation to the issue. While the review is ongoing, based on further analysis undertaken during the financial year, Regis has increased the provision to $37.7 million at 30 June 2022.

Oneview Healthcare PLC

On 14 April 2022, Regis settled its dispute with Oneview Healthcare PLC, regarding an alleged breach of a collaboration agreement between the two parties. The terms of the settlement are confidential and did not have a material impact on Regis' 2022 financial results.

Dividends

On 23 February 2022, the Board of Directors resolved to pay an interim dividend of 3.52 cents per ordinary share totalling $10.6 million (50% franked) for the half-year ended 31 December 2021, paid on 8 April 2022.

On 24 August 2022, the Board of Directors resolved to pay a final dividend of 2.32 cents per ordinary share totalling $7.0 million (50% franked) for the year ended 30 June 2022, payable on 30 September 2022.

Regulatory Penalty

On 11 August 2022, the Aged Care Quality and Safety Commission (ACQSC) applied regulatory penalties to Regis Port Coogee of a Sanction and Notice to Agree (NTA). Regis has complied with all actions and requirements stipulated by the ACQSC under the NTA and will be seeking review of the Sanction.

Outlook

Given insufficient clarity over the financial impact of the new AN-ACC funding model, the ongoing challenges of the COVID-19 pandemic and labour shortages, the Board does not believe it prudent to put forward any earnings guidance at this stage. A business update will be provided at the Annual General Meeting to be held on 25 October 2022.

Dr Mellors said, "Regis will continue to focus on the care of our residents and clients, and support of our workforce. The Company is hopeful that the new Australian Government will prioritise meaningful sector reform, in collaboration with the sector. I would like to take this opportunity to thank all our employees for their ongoing commitment to our residents and clients."

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A teleconference and webcast will be held by Regis' Managing Director & CEO Dr Linda Mellors and CFO Mr Rick Rostolis at 11am AEST. Dial-in or login registration details are as follows: https://services.choruscall.com/mediaframe/webcast.html?webcastid=1kVYUFwW

This document was authorised for release to the ASX by the Board of Directors.

[1] Non-IFRS financial information has been prepared in accordance with ASIC Regulatory Guide 230 - Disclosing non-IFRS financial information, issued in December 2011. Non-IFRS financial information, while not subject to audit or review, has been extracted from the Financial Report, which has been subject to review by the Company's external auditors. Underlying EBITDA is non-IFRS financial information and refers to earnings before interest, tax, depreciation and amortisation, excluding imputed income on RADs and Bonds, COVID-19 outbreak expenses and other one-off items, and including operating lease expense. NPATA is non-IFRS financial information and refers to net profit after income tax before amortisation of operational places

[2] Based on average available operational places of 7,057 (FY21: 7,144)

[3] Regis' COVID-19 fourth booster dose statistics relate to eligible residents only. The statistics allow for residents who have had COVID-19 in the last three months, together with residents who have had a third booster dose in the last three months and are not yet eligible for their fourth dose

[4] Includes $62.4 million of imputed income on RADs and Bonds (FY21: $64.4 million)

[5] Leverage ratio is calculated as underlying EBITDA on a rolling 12-month basis as a ratio to net debt