

ASX Announcement

21 February 2023

Estia Health Interim Results FY23

Estia Health improves earnings, reinstates dividends and confirms growth

Estia Health Ltd (ASX: EHE) (“Estia Health”, the “Company” or the “Group”), one of Australia’s largest residential aged care providers, presents the following update in relation to its interim results for the six-month period ended 31 December 2022.

- **\$359.2 million revenue, up 9% from the prior six-month period**
- **Total EBITDA¹ \$40.7 million, excluding acquisition costs, increased from \$4.7 million in the prior six-month period,**
- **\$25.3 million Net Loss After Tax, compared to \$44.3 million loss in the prior six-month period**
- **3.7 cps fully-franked interim dividend declared**
- **91.9% average occupancy, up from 90.6% in the prior six-month period**
- **COVID-19 cost impacts reduced by more than half compared to the prior six-month period, to \$16.3 million, from \$38.3 million**
- **\$13.7 million of FY22 COVID-19 related grants approved in the period**
- **Increased net RAD inflows of \$28.5 million**
- **Net Debt² \$59.7 million, adjusted Net Debt \$103.2 million**
- **Successful integration of Premier Health Care homes (409 places), settled 1 December 2022**
- **Acquisition of a new 120 place home in Ballarat, Victoria**
- **On-Market share buy-back expected to recommence in April**

Net Loss After Tax for the six-month period ended 31 December 2022 was \$25.3 million, an improvement compared with a Net Loss After Tax of \$44.3 million for the preceding six months ended 30 June 2022. The result was impacted by the bed licence amortisation charge of \$40.2 million, acquisition related costs of \$6.6 million, and net COVID-19 related costs of \$2.0 million, after receipt of grants in the period.

The Group also announced the acquisition of a recently built, fully-operational home in the city of Ballarat, Victoria, offering all single ensuite rooms and with final settlement subject to customary approvals.

Estia Health CEO Sean Bilton said, “As the financial impact of COVID-19 eases, the positive momentum we outlined at the AGM has been sustained across most key metrics, despite workforce challenges persisting across both the sector and broader economy.

¹ EBITDA is categorised as non-IFRS financial information prepared per 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. This measure has been adjusted from the reported information to assist readers in better understanding the financial performance of the business in each financial period. This non-IFRS financial information has been extracted from the interim or annual financial statements of the Group. EBITDA for the period excludes transaction costs associated with home acquisitions.

² Net Debt is defined as bank borrowings and overdrafts less cash and cash equivalents.

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“The further key reforms introduced during the six months to December 2022, including the new AN-ACC funding mechanism, star ratings and the worker code of conduct, have all been successfully implemented by the Group.

“Two major elements of the Government’s planned reform agenda remain - mandated care minutes and the Independent Hospital and Aged Care Pricing Authority’s (IHACPA) work, each of which are significant factors in the outlook for earnings in the sector beyond FY23.

“I am pleased that after the challenges of recent years, the improvement in earnings, particularly in the second quarter, and a strong cash position has allowed us to reinstate dividends and declare a fully-franked interim dividend of 3.7 cents per share.”

Occupancy

Occupancy increased to an average of 91.9% in the period, an increase of 1.3% from the preceding six months, continuing its recovery from COVID-19 lows experienced in February 2022. Victorian occupancy increased by 1.2% during the period and has increased a further 2.5% on a spot basis at 17 February 2023, but still lags the average spot occupancy of 95.0% across the other regions.

Spot occupancy at 17 February 2023 was 92.9% across the whole Group’s mature homes.

Mount Clear, Ballarat Acquisition – 120 New Operational Places

Binding terms, subject to customary regulatory approvals, were concluded on 20th February 2023 for the acquisition of a 120-place fully-operational home in Ballarat, Victoria. The home was completed in 2019, comprises all single ensuite rooms and spot occupancy is currently 99%. Final net cash outlay is expected to be approximately \$15 million once RADs are received from financial residents in the recently completed ramp-up. Completion, subject to approvals, is expected to be 1 May 2023. The home is currently expected to deliver earnings for FY23 of approximately \$3.0 million.

Sean Bilton said, “The acquisition of the Mount Clear home continues our strategy to sustainably grow our portfolio, including purchasing homes that are aligned to our existing successful operating clusters and are of high quality.

“The location in Ballarat fits with our Victoria West cluster with homes in Geelong and Bendigo. Importantly, Ballarat is the third largest city in Victoria with a population exceeding 110,000 and is a centre for manufacturing, health and education.

“When added to our acquisition of four Premier Health Care homes completed in December, and the opening of our homes in St Ives and Aberglasslyn, both in New South Wales, towards the end of this calendar year, we will have added 789 places, or 13% to the Group’s capacity since June 2022.”

Premier Health Care homes acquisition

“The Premier Health Care acquisition is delivering on our expectations. Merging of the homes into our portfolio is going well, with 98% of employees joining our Estia Health team and key systems and processes fully integrated. The homes are currently trading slightly ahead of expectations and we continue to expect future earnings of each of these homes to be in line with the performance of our homes of similar quality and scale”, Mr Bilton said.

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COVID-19

The impact of COVID-19 on the operational and financial performance of the Group is easing compared to prior periods. Despite the fourth wave of the Omicron variant impacting the wider community and sector in December 2022, COVID-19 related costs were more than halved to \$16.3 million compared to the preceding six-month period. As a result of high vaccination rates and anti-viral drugs, the duration and health impact on residents is much reduced and easing public health settings are resulting in lower costs. \$13.3 million of these first half- year costs, or 81%, have now been submitted to the Commonwealth as grant reimbursement claims.

Grant applications for COVID-19 cost recovery from prior periods continue to experience long delays in processing by Government. Nevertheless, \$13.7 million of grants were approved and largely remitted to the Group during the period. Although the Government has committed to improved processing times, approximately half of the \$41.8 million of grants submitted relating to FY22 remain outstanding and subject to processing by Government.

Financial Results

Total EBITDA in the period was \$40.7 million excluding acquisition costs, a significant improvement from \$4.7 million in the prior six-month period. This result reflected:

- improved occupancy;
- reduced COVID-19 costs, and increased grant recovery;
- the introduction of AN-ACC, which increased daily revenue per resident from 1 October 2022 by approximately \$10;
- indexation of other Government set fees and subsidies from 1 October 2022; and
- the increase in the MPIR (the rate charged for Daily Accommodation Payments)

Annualised EBITDA per occupied bed on mature homes (excluding the impact of COVID-19 costs and grants) recovered in the period to an average of \$14,947.

Net Debt and RAD Inflows

RAD inflows were strong during the period at \$28.5 million. Contained within this was an increase of \$36.3 million in RAD balances for current residents, which excludes the RAD liabilities assumed from the Premier Health Care acquisition. Probate liability reduced by \$8.7 million by 31 December 2022. With current interest rate settings expected to persist, a higher MPIR is expected to have a positive influence on future RAD inflows.

Reported net debt was \$59.7 million at 31 December 2022 and excluding the advance payment of January fees of \$43.5 million, which was received from Government prior to calendar year end, would otherwise be \$103.2 million. Reimbursement of the \$31.4 million of total grant applications for FY22 and FY23 that are outstanding would reduce net debt, excluding the January prepayment, to ~\$71.8 million, which is well below the target range, even after the Premier Health Care acquisition being fully funded from existing facilities and reserves.

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Workforce

Workforce remains the greatest challenge for the sector, with a current estimated shortfall of 35,000 workers. Providers are typically relying on a higher proportion of agency and overtime support in order to ensure the provision of services and this pressure is expected to become more acute when mandated care minutes are in place from October 2023.

In relation to the work value case, the Fair Work Commission in December 2022 recommended a minimum 15% increase for direct care staff in the sector. Responses to its proposals have been made from Government, unions and other stakeholders and although the final outcome remains unclear, the Government has indicated a continued commitment to fund the final increase. There remains uncertainty about how much, when and how the increase is implemented and funded, and ultimately to which categories of employees it will apply.

This increase should assist in attracting workers back to the sector and retaining the current workforce. However, inflationary and wage pressures in other sectors of the economy mean increases in excess of 15% are likely to be required to attract and retain the workforce required in the future.

On-Market Share Buy-Back

As part of its ongoing capital management strategy, the Group intends to reinstate its on-market share buy-back with effect from Monday 3 April 2023.

Outlook

Sean Bilton said, "There is positive momentum in a number of indicators, particularly with incremental funding from the introduction of AN-ACC continuing to translate to better margins for the remainder of FY23.

"COVID reimbursement grants continue to be processed for FY22 and FY23, with further approvals and cash receipts expected in the second half of FY23 and a new scheme has been announced for costs incurred from 1 January 2023.

"The positive movement in the MPIR to its highest point since 2013 is improving outcomes on DAPs and RADs.

"Opportunities for growth are expected to be available in keeping with our strategy to grow sustainably, including through the purchase of high quality homes with attractive upside such as the Premier Health Care acquisition and the announcement today of the purchase of a new home at Ballarat in Victoria.

"We remain confident that the fundamental drivers of the sector will remain strong for those residential aged care providers who put residents at the centre of their operating model and perform in a financially sustainable manner.

"However, two major elements of the reform agenda remain, mandated care minutes and IHACPA's work, each of which are significant factors in the outlook for earnings in the sector beyond FY23.

"All providers will likely be required to consider their overall resourcing models and supporting cost structures in light of the mandating of inputs from 1 October 2023, including taking account of IHACPA recommended subsidy indexation from 1 July 2023."

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

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Investor and Analyst Teleconference Details

Estia Health's CEO and Managing Director Mr Sean Bilton and CFO Mr 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>

About Estia Health Ltd

Estia Health is one of Australia's largest residential aged care providers. The Group delivers services across 72 homes (66 Freehold sites) in Victoria (25 homes), South Australia (19 homes), New South Wales (18 homes), and Queensland (10 homes). These homes have 6,596 operational places, with 91.7% in single rooms. 68 of the Group's homes, representing 6,320 resident places, qualify for and benefit from the significant refurbishment supplement paid in respect of supported residents. The Group employs in excess of 7,800 staff who care for more than 8,000 residents annually.