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ASX/MEDIA RELEASE

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Estia reports earnings in line with Guidance[3]

Estia Health Limited (ASX: EHE), one of Australia's largest aged care providers, today reported a profit after tax of $14.3m as the industry continues to face challenging conditions and margin compression.

Highlights:

- 93.7% average occupancy during the period
- $14.3m Profit After Tax
- $40.9m pre-AASB16 EBITDA[1] on Mature Homes in line with Guidance
- $22.2m net RAD inflows
- $46.3m capital investment in new homes and enhancement of existing homes
- $96.6m net debt, with $211.0m undrawn facilities
- Interim fully franked dividend of 5.4c cents per share; representing approximately 100% of profit after tax

Chief Executive Officer, Ian Thorley said "As we look at the margin compression, and challenges in the sector, this is a solid result reflecting the quality of our services and portfolio and disciplined approach to costs and investment.

"Our occupancy levels continue to exceed industry averages as we focus on growing market share at a local and national level. Prospective residents and their families are well-informed, have high expectations and are more discerning in their choice of future living arrangements for older Australians. Our results demonstrate that our homes, services and care standards are well regarded by the communities in which we operate.

"Our disciplined management of costs has allowed us to sustain our staffing investment in our homes to ensure we continue to deliver the services and care that residents and families expect, whilst mitigating the impact to shareholders during the current period of margin compression.

"This is the most difficult period for the sector I have seen, and we hope that the next stage of reform and change, will include changes to the funding and financing structure to create a financially sustainable sector."

Ian Thorley said, "I am very proud of our team at Estia, and the dedication they demonstrate to our residents in a very difficult time for everyone in our industry.

"Our goal continues to be a leader in the sector, a provider of choice for residents, employees and investors both today and in a re-designed future system, where we believe private capital and investment will continue to play a critical role in meeting the expectations of the increasing aged population in Australia."

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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 and gain/loss on sale of assets held for sale 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. "EBITDA on Mature Homes" excludes the EBITDA impact of the new homes at Southport and Maroochydore; excludes the impact of any direct costs associated with the Royal Commission, and excludes profit or loss on asset disposals such as the sale of the Mona Vale property reported to the AGM on 6th November.
3. "Guidance" refers to the FY20 earnings guidance contained in the Announcement "Occupancy and Trading Update" issued to the ASX on 9th December 2019.

Investing in quality and growth

Estia has continued its disciplined approach to investment in new capacity, improving the amenity of its existing homes and identifying appropriate divestments.

Estia invested $46.3m of capital in new homes, enhancements and improvements at existing homes as well as sustainability initiatives.

Ian Thorley said "8 more homes with 810 beds completed a significant refurbishment program during the period, improving the quality of amenity provided to residents. This brings the total number of homes qualifying for the higher accommodation supplements to 42, with a further 8 homes with 805 beds currently being refurbished and due to complete by June 2020."

"As I look forward, we have a pipeline of around 650 new beds either under construction or in planning and development stage which we will continue to manage in a conservative and disciplined manner pending sector reform. Not all of this investment is fully committed and we continue to assess the reform agenda in relation to financial sustainability of the sector prior to committing resources."

New Homes

The 110-bed home which Estia opened at Southport (Queensland) in May 2019 performed very strongly during the period reaching 86% occupancy by 31 December 2019 and 100% in February 2020. In August 2019 the Group opened a new 126-bed home at Maroochydore (Queensland) which also performed strongly reaching 42% occupancy by 31 December 2019 and 56% in February 2020. Both homes deliver the highest quality of care in outstanding environments with financial performance ahead of expectations. Net losses associated with the opening and ramp up of these two new homes were limited to $0.8m in the period.

Asset Sale – Mona Vale

After detailed review it was decided that the best option in relation to the site of the former Mona Vale home was to sell the property. The Company has entered into a binding unconditional contract to sell this site for $10.95 million, with settlement due in the second half of FY20. This is expected to yield a profit before tax of around $7.8 million, which will be additional to existing earnings guidance.

Capital Management

Estia continues to maintain its historic balance sheet strength with net bank debt at 31 December 2019 of $96.6m, well within its facility of $330m and gearing targets. Net RAD inflows were $22.2m during the 6 month period with positive inflows from new and mature homes.

Ian Thorley said "RAD choices by residents have maintained the uplift seen in the latter part of FY19 and we are pleased with the contribution made to capital from our new homes at Southport and Maroochydore.

"Maintaining a strong balance sheet, continues to be a prime focus for us in ensuring we continue to be able to manage any short-term variations in RAD flows, sustain our disciplined capital investment program and provide returns to shareholders."

Dividend

Estia has declared an interim dividend of 5.4 cents per share, fully franked, representing a payout ratio of approximately 100% of Profit After Tax for the period. The record date for the dividend is 2 March 2020 with payment to be made on 27 March 2020. The Company's Dividend Reinvestment Plan ("DRP") will apply in full to the interim dividend.

Sector Reform

Ian Thorley said, “We believe that a financially sustainable residential aged care sector in Australia will require the support of well-governed, quality-focused providers like Estia, with capacity to meet the demands for choice in how we care for our elderly people. We will continue to focus on delivering high quality care and services within each of our homes, while maintaining financial discipline and executing our expansion and refurbishment plans.”

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Further inquiries:

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Investor and Analyst Teleconference Details:

Estia Health’s CEO Ian Thorley and CFO Steve Lemlin will host an analyst and investor conference call commencing at 9:30am (ADST) today, which will also be webcast.

Dial in details: Australia 1800 558 698 or 02 9007 3187 Conference call ID: 10003059

Webcast can be viewed at: https://webcast.openbriefing.com/5669/