

29 November 2018

The Manager
Company Announcements Office
ASX Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam,

Chair and CEO Addresses to the 2018 Estia Health Limited Annual General Meeting

Please find attached the Chair and CEO's addresses to the Estia Health Limited Annual General Meeting on 29 November 2018 as required under Listing Rule 3.13.3.

Yours faithfully,



Leanne Ralph
Company Secretary

Estia Health AGM 2018 – Chairman’s Address – Dr Gary Weiss

Welcome

Good afternoon everyone and welcome to Estia Health’s 2018 AGM.

As Chairman of Estia Health I am pleased to report on a stable year with good financial results and a solid outlook for the year to come.

I would like to start by introducing our Board:

- Mrs Norah Barlow, a Non-independent, Non-executive Director
- Paul Foster, an independent Non-executive Director and Chair of the Nomination and Remuneration Committee
- Helen Kurincic, an independent Non-executive Director and Chair of the Risk Management Committee
- The Honourable Warwick L. Smith, an independent Non-executive Director and Chair of the Property and Investment Committee
- Unfortunately, Karen Penrose is an apology today due to a prior commitment. Karen was recently appointed as an independent Non-executive Director and Chair of the Audit Committee

Andrew Harrison resigned as a Non-executive Director in October. Andrew leaves the Estia Board with a solid foundation of strong corporate governance and I would like to thank him for his contribution.

I would also like to welcome Karen Penrose as a Non-executive Director Board member. Karen’s background spanning financial services, property and infrastructure further diversifies the skillset and experience of the Estia Board.

Succession Planning

I would also like to introduce members of our Executive team, which has undergone changes since the last AGM. In July I announced that Ian Thorley would succeed Norah Barlow as Estia's CEO, and he has now officially taken on this role, as Norah steps back into a Non-executive Director role. I want to thank Norah for successfully leading Estia through a period of significant change, ultimately transforming the Company and putting Estia on a solid footing for the future. I am particularly pleased that Norah is remaining on Estia's Board so we will continue to benefit from her wisdom and experience as a veteran of the aged care sector.

Ian leads Estia as CEO and is backed by a very strong and capable Executive team that has been formed over the past 18 months. Our most recent appointments have added to this capability with Rita Sheridan, GM Property and Development, who will lead Estia's strong and positive growth trajectory, which I will expand on later and Sean Bilton, an experienced aged care executive who has taken over the role of Chief Operating Officer from Ian and will lead Estia's operational delivery across our current portfolio of 68 homes.

FY18 highlights

The FY18 results reflect the positive impact of the stabilisation strategy under Norah's leadership as we delivered on guidance of a mid-single digit percentage increase in EBITDA, which rose 4.1% from FY 17 to \$90.1 million. A key driver of this was a 4.3% increase in operating revenue to \$547.1 million. The Company has continued to implement a range of operational improvements that have assisted in lifting performance and focused on optimising occupancy with strong local community engagement programs and ongoing investment in improving and enhancing our existing homes. This resulted in us achieving an average occupancy through the financial year of 94.2%, even in the face of an unprecedented flu season.

Estia has a strong balance sheet, underpinned by \$330 million of bank facilities, which provides stability in an ever-changing sector and provides capability and capacity to fund growth, to accommodate any potential implementation of mandated capital or liquidity ratios by Government and to absorb potential changes in resident payment preferences.

In the past year Estia has continued to strengthen our clinical governance model and systems throughout the organisation to ensure the highest level of care is consistently delivered to our 8,000+ residents annually. There is no greater priority for Estia than striving for the highest quality care standards, safety and wellbeing for our residents and staff. Our governance framework ensures our clinical audit and risk functions operate and report directly to the CEO. The Board's Risk Management Committee monitors all risks, including clinical risk.

Growth opportunities

Estia's conservative approach to improving and expanding the existing portfolio ensures the Company is on a solid and sustainable path for future growth and value creation for shareholders, with a strategy to drive future earnings from enhancing the services and operations of all homes, enhancing our existing portfolio and increasing bed capacity. Our capital spending program in FY18 included \$13.9 million on significant refurbishments with five homes completed during the year, with another \$30 - 35 million committed for a further 13 homes in FY19.

We continue to look at the evolution of the services we offer in our homes to meet modern expectations as we strive to be the provider of choice in our communities. This year we expanded the portfolio with the opening of our Twin Waters home in Queensland and Kogarah home in New South Wales, which were part of a significant capital investment program of \$60.3 million in FY18 to increase bed capacity and enhance facilities. Both homes were delivered on time and within budget and have operationally exceeded our expectations. We have committed a further \$65 - \$80 million on three greenfield sites for FY19.

We are also conscious of the long-term sustainability of our environment, having spent \$4.4m this year on sustainability projects, with a further \$5m of projects in planning. A broader environmental, social and governance program remains an important focus for Estia, with an established ESG Committee leading our sustainability initiatives across these key areas.

Operating and regulatory environment

The aged care sector has been subject to multiple ongoing reviews and inquiries. The most recent development has been the announcement by the Prime Minister in September this year of a Royal Commission into the aged care sector, followed by publication of the Terms of Reference and the appointment of two Commissioners soon after. Last Friday, the Commissioners wrote to aged care providers requesting early submissions on a range of issues relevant to the Commission. Deadline for submissions for larger providers such as Estia is 7 January 2019.

We have supported the previous reviews and recommendations such as those made by the Tune Review, the Carnell/Paterson report and the Pollaers report. We hope that the Royal Commission will provide a consolidated framework drawing upon the work done through these multiple reviews to advance the wellbeing of all Australians.

Estia supports the establishment of the Royal Commission and we welcome the scrutiny of the sector and any measures that will be implemented.

Government bodies such as ACFA (The Aged Care Financing Authority), reports by Stewart Brown and recent Senate inquiries have pointed out that profitability in the sector is in decline,

with a growing divide between the larger well-capitalised providers and the smaller, often single home providers that are losing money at an EBITDA level.

Estia considers that the sector requires greater transparency in reporting guidelines to ensure residents and their families have financial protection. This would potentially require the provision of detailed, audited and publicly available financial statements for all providers of aged care services and the adoption of stronger capital and liquidity ratios and improved disclosure standards.

ACFA estimates that over 83,000 places will be required over the next decade with nearly \$53 billion of capital required to meet the residential care needs of our ageing population. In contrast to this estimate, as at 30 June 2018, there were close to 32,000 provisionally allocated licences allocated at ACAR but not yet operational/built. Clearly, the ACAR process as it currently operates is not driving capital investment into providing new beds. This presents an opportunity to reform the supply of beds and encourage capital investment as recommended in the Tune Review in 2017.

We all however have a role to play. The Government, aged care providers such as Estia and the consumer will all need to take a level of responsibility in determining the future of Australia's aged care system.

The Tune Review made several key recommendations for consumers including bringing a more 'user-pays' model into the aged care system, through the uncapping of the basic daily fee, removing lifetime caps on care fees, and bringing the family home into asset means testing. We believe that these proposals are appropriate ways of ensuring sustainability for the sector.

As one of Australia's largest private aged care providers Estia has the capability in terms of people, services and financial resources to deliver high quality aged care services and play a vital role as part of a stable and sustainable aged care sector.

In closing, I would like to thank my fellow Directors, the Executive team and the 7,000 plus dedicated and passionate employees who come to work every day to deliver exceptional care to our residents. I would finally like to thank you, our shareholders, for your ongoing support and belief in Estia's mission to deliver resident-centric services and high quality clinical care that makes Estia a place where everyone belongs.

I will now hand over to Ian. Thank you.

Estia Health AGM 2018 – CEO's Address – Ian Thorley

Thank you Gary, and good afternoon everyone.

FY18 was one of significant achievement for Estia Health with an improved financial performance, underpinned by the strength of our balance sheet, increased investment in our people, the completion of five significant refurbishment projects and the opening of two new homes.

Strong FY18 Result

The structural changes and enhancement of operational processes that we commenced in early 2017 supported our strong financial performance in 2018. We delivered on our guidance of a mid-single digit percentage increase in EBITDA, which rose 4.1% from FY 17 to \$90.1 million.

A key driver was a 4.3% increase in operating revenue to \$547.1 million. We grew occupancy at a difficult time for the sector and this showed the strength of our referral model and close links with local communities.

Our current YTD Occupancy is 94.1%

Operating metrics improved in 2018, and our gearing of 0.7xEBITDA as at 30 June 2018 gives us flexibility for the future. Our safety record as measured by LTIFR improved from 16.2 to 9.1 and our staff retention improved with our overall turnover rate being 20%.

For our shareholders, we declared a final dividend of 8 cps, fully franked, making the full year FY18 dividend 15.8cps, at 100% of NPAT. We retain the policy that distributions will be no less than 70% of NPAT.

Regulatory landscape

The aged care sector has been subject to intense media scrutiny and regulatory change in recent times. There have been a number of government commissioned reviews addressing ways to support consumer choice, increase care standards and improve sustainability of the sector. We believe many of the recommendations from these reviews point to ways that would strengthen the aged care sector as part of Australia's healthcare system long into the future.

We see the recently announced Royal Commission as an opportunity to achieve higher care standards for residents and more certainty for all stakeholders. Initial requests for information have now been received from the Royal Commission.

To provide the proper governance for matters arising from the Royal Commission we have established a Board sub-committee. Operational structures have also been put in place to ensure that we can fully co-operate with and support any activity associated with the Royal Commission whilst not adversely disrupting our managers and staff from their day to day work caring for our residents.

Our continued commitment to care

The care of our residents is central to what we do. This has a top down focus from our Board and there are well established audit and surveillance systems for the review and reporting of clinical performance. The results are regularly reviewed and used to improve our services.

The Board Risk Committee was formed in 2018 to provide governance over such matters.

In the last 12 months we have had 112 Accreditation Audits or un-announced visits which we would expect given our size and the stated policy of the Australian Aged Care Quality Agency of regularly visiting homes. During these visits the Quality Agency assesses us against a set of standards, and as is publicly known and reported we currently have three homes with a number of unmet outcomes. We are disappointed with these results as our standard is to be fully compliant 100% of the time. We are confident that all unmet outcomes will be resolved within normal, expected timeframes. It is to be noted that all Estia homes remain fully Accredited.

The Board has an active program of visiting homes, meeting directly with staff and residents to assess culture and operational standards. In the past 12 months, the Board visited multiple homes in New South Wales, Queensland and Victoria.

One of our values is *See Something, Say Something*. During the year we introduced a whistle-blower hotline to ensure transparency of issues that concern staff. This hotline is being extended to include residents and relatives. The hotline is independently administered by Deloitte and matters referred from the hotline are managed by Estia's General Counsel, with disclosures referred to the CEO and Chair of Audit Committee.

Our people

The recently released Aged Care Workforce Report presents original and innovative recommendations to make aged care employment more attractive and ensure staff are better equipped to undertake their roles.

Estia has anticipated several of the themes of this Report through the substantial investment in staff development at all levels of the company. Foremost have been our clinical training activities designed to support our nursing and care staff.

These programs have included training programs for our Registered Nurses and our clinical leads. We are particularly proud of our commitment to supporting new nursing graduates through the Graduate Nurse – Transition to Aged Care Practice which is a 12-month program.

Management development programs designed to enhance the core leadership competencies of our Facility Managers and Clinical Directors also commenced in FY18.

To create career pathways for our future leaders, the Emerging Leaders' Program also commenced during the year. This 12-month program supports talent retention and ensures that we have a pool of leaders that are management ready to support Estia's growth.

Our merit-based appointment of Board and Executive roles makes Estia one of the most gender diverse of ASX listed companies.

Nurse staffing has been a focus of much commentary over the last 12 months. Estia has a Registered Nurse, acuity-based staffing model in all 68 homes. Registered Nurses are rostered 24/7 in every home to provide the higher level of care required by our residents and to supervise the care staff as they perform their roles.

Investment and growth

Net bank debt at the end of FY18 was \$63.8m. This provides the capacity for our developments in the upcoming year together with our approved funding lines of \$330m. We have circa \$80m of developments approved and commenced.

The commissioning of two new builds, Kogarah and Twin Waters was very successful. Both achieved full occupancy within 12 months and are operating at top quartile financial metrics. This demonstrates our commissioning expertise. It also shows that the homes and services we are developing are well matched to the needs of the local communities.

The current greenfield projects at Blakehurst in New South Wales and Southport and Sunshine Cove in Queensland are well underway. Blakehurst has been delayed as a result of additional land contamination found below ground level after demolition of the old building. This has resulted in a delay in the completion of the project by six months, now expected in FY20. The Queensland projects are currently expected to be delivered within budget in Q4 FY19, noting that the start-up costs for these two homes are not included in EBITDA guidance, which relates to existing homes. Planning for Wollongong and St Ives is progressing.

Further opportunities are being reviewed within the portfolio, particularly capital recycling projects like Southport, Blakehurst and Kogarah. Further details will be provided when this assessment has been completed, as we work towards a goal of a steady delivery pipeline of new and refurbished homes, within the constraints of the ACAR system.

Over 600 beds were upgraded as part of our significant refurbishments in the year and another 12 projects with 985 beds are underway for completion in FY19. An additional five homes are being reviewed to accelerate this program and updates will be provided in due course. By the end of FY19, 34 homes are expected to be receiving the full higher accommodation supplement.

Estia's Outlook

Demand for residential aged care services is still strong. It is needs-based. Our residents require a level of care which can only be provided at home in limited circumstances.

Notwithstanding the policy settings that are supporting home care and other care types, they are but a part of the continuum of care, complementing, not replacing residential aged care.

We previously provided guidance that FY19 would be mid-single digit percentage EBITDA growth on existing homes subject to no material changes to market conditions or regulatory change.

We re-affirm EBITDA guidance on our existing homes, again subject to no material changes to market conditions, or regulatory change. We will provide an update on the expected additional costs associated with responding to and participating in the Royal Commission once a full assessment of the likely requirements of the Royal Commission and necessary costs of meeting those requirements is more fully understood and costed.

At the half year we will provide a full indication of the additional costs this year arising from the opening of the new homes at Southport and Sunshine Cove, which we expect to be consistent with our Twin Waters' experience in FY18, and as I stated earlier, are not included in our Guidance for existing homes.

As is being experienced across the sector, we are seeing a movement in RAD/DAP preferences. With the previously reported movement in concessional residents, we are seeing less RAD inflows than in previous periods, with a corresponding increase in DAP income. Net RAD inflows since 1 July have been \$1.6m, with a reduction in probate liabilities of more than \$5m contributing to that. With our balance sheet strength and debt capacity we expect to be able to absorb short to medium term fluctuations in RAD balances without major impact to our planning or capital management at this stage.

Before closing, I would also like to recognise the contribution of Norah Barlow. Gary spoke of Norah transforming the Company and this is evident to all stakeholders and you, our shareholders. What may not be as apparent is the way she did this: a clear vision, empowering our leadership team, trusting their decisions and having a genuine interest in all staff she met when visiting our homes.

Above all was Norah's focus on ensuring Estia created the best experience for our residents. Her legacy will be enduring.

I would like to recognise and thank our managers and staff for the dedication, respect and dignity shown to the 8,000 residents we care for each year.

Finally, thank you to the Board and to you, the Shareholders for your support of Estia Health.

- ENDS -