

## ASX Announcement

5 November 2020

### Chair and CEO Addresses to the 2020 Estia Health Limited AGM

The Chair and CEO's addresses to the Estia Health Limited Annual General Meeting on 05 November 2020 are attached, as required under Listing Rule 3.13.3.

**Approved for release by the Company Secretary.**

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#### Further inquiries:

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## **Chairman's Address – Dr Gary Weiss AM**

Good afternoon everyone my name is Gary Weiss and it is my pleasure as Chairman of Estia Health Limited to welcome everyone joining us today for our first virtual Annual General Meeting of shareholders.

At Estia Health our single-minded focus is on the health, safety and welfare of our residents, our team members and the communities in which we operate. We hope that by holding a virtual meeting we will assist in further reducing the spread of the COVID-19 virus and encourage greater participation and engagement amongst our shareholders.

One of the benefits of a virtual meeting is that it allows shareholders to attend and participate no matter where you live. Be assured that you will be able to vote and ask questions or make comments during this meeting.

This is a very different experience for all of us and let me thank you in advance for your patience as we go through the meeting. We have tried to ensure every shareholder an opportunity to participate in the meeting that is equivalent to the one you would have had if attending in person.

It is now just past 1.00pm, the nominated time for the meeting and I have been informed by our Company Secretary that a quorum is present. I note that the meeting has been validly constituted and I declare the meeting open.

The Notice of Meeting was made available to all registered shareholders within the notice period required. With your consent, I will take that document as read.

As set out in the Notice of Meeting, voting on all resolutions will be decided on a poll. In order to provide everyone with an opportunity to vote and in case anyone cannot stay for the whole meeting, I will now formally declare the poll open.

I would like to introduce your Directors who are joining us from Sydney, Melbourne and Wellington.

- Ian Thorley, Chief Executive Officer and Managing Director
- Norah Barlow, Non-independent, Non-executive Director
- Paul Foster, Independent, Non-executive Director and Chair of the Nomination and Remuneration Committee
- Helen Kurincic, Independent, Non-executive Director and Chair of the Risk Management Committee
- The Honourable Warwick L. Smith AC, Independent, Non-executive Director and Chair of the Property and Investment Committee and
- Karen Penrose, Independent Non-executive Director and Chair of the Audit Committee

And you have met our Company Secretary, Leanne Ralph.

We also have Estia Health executives online, representatives from the Company's auditors EY, and representatives from the Company's share register, Link Market Services, who are also providing the virtual meeting platform today.

The online platform is now open for shareholders' questions. I encourage shareholders to send their questions through as soon as possible. We have received a number of questions prior to the meeting and we have sought to address these during the upcoming presentations. We will open the meeting for general business questions after my address and the CEO's presentation. We will also allocate time for questions from shareholders on each resolution when it is considered.

There are three components to today's meeting. First, I will provide you with an update on the business from a strategic perspective and on our sustainability commitments. This will be followed by a detailed overview of the Group's performance for the 2020 financial year by CEO Ian Thorley.

Following the general business questions, we will progress to the formal business of the meeting, where the resolutions provided in the Notice of Meeting will be put to shareholders.

This has been an extraordinarily challenging year.

In Australia, drought, bushfires and floods had a devastating effect on regional and rural communities.

Then all of us have been personally affected by the advent of the COVID-19 pandemic. This global pandemic – the most serious since the Spanish flu epidemic a 100 years ago - has had a material impact on the global economy and is fundamentally changing the way we work and live.

It has significantly affected older adults around the world, particularly those in residential aged care, causing anxiety for residents, their families and health workers. In Australia this was most evident in the effects that high community transmission had on residents, their families and the employees of aged care homes in Victoria.

There were COVID-19 positive cases among residents or workers in over 200 of Victoria's residential aged care homes between July and October.

During Victoria's second wave of community transmission beginning in late June, there were high numbers of positive cases in four of our homes. Like other aged care providers, we put our homes into lockdown, residents were isolated, some were transferred to hospital and a number of families lost loved ones.

Ian will go into detail on our response to COVID-19 and our ongoing communication with residents and their families. However, I do want to note that Ian personally spoke with the families of those of our residents who sadly passed away. He conveyed our deeply felt sympathies and confirmed our commitment to provide whatever support the families needed

from us. We feel for each and every one of those family members for their loss and the distress this has caused.

I also want to acknowledge and thank all our 7,500 team members for their unwavering dedication and commitment to caring for our residents. Some of our employees were required to self-isolate and some contracted COVID-19 while caring for our residents and required hospitalisation. Your efforts are greatly appreciated.

Many of our employees travelled from Queensland and New South Wales to work in our homes in Victoria. It is a great comfort for residents to have people care for them who are already familiar with how their Estia Health homes work and a tremendous support for our Victorian employees, to know that help was there when needed.

As the impact of COVID-19 became apparent, Estia Health responded with the capability and capacity of a large, national provider with strong operational and financial resources and with robust governance.

In February we formed a Board COVID-19 sub-committee under the chairmanship of Helen Kurincic, the Chair of our Risk Committee. The sub-committee met at least weekly and more frequently as required, to oversee and monitor management's response to the pandemic.

The Board gave a mandate to management that the full financial and operational resources of the Group were to be deployed without reservation to meet the challenges of the pandemic. As a large provider with a depth of liquidity and financial capacity we were able to undertake that challenge, and recognise and accept the cost of that decision without putting the organisation's viability at risk.

From March to June of this reporting period, this resulted in a primary focus on boosted infection prevention and control training and procedures, encouraging and supporting team members needing isolation, and establishing bulk personal protective equipment supplies.

During FY20, in States other than Victoria, we experienced isolated single COVID-19 positive cases at two homes in New South Wales, where our Positive Test Response Plan was activated, and no further positive cases were reported.

## **Performance for 12 months to 30 June 2020**

The financial and operating performance we delivered for the 12 months to 30 June 2020 reflects our fundamental commitment to the health, safety and welfare of our residents and our employees, and the position of your Company as a strong, well governed and well-capitalised residential aged care provider.

Earnings before tax for the 12 months to 30 June 2020 fell to \$35.8 million prior to the non-cash impairment charge of \$144.6 million. This fall is primarily as a result of ongoing margin compression as a consequence of Government funding increases not keeping pace with rising staff costs over a number of years.

The financial impact of COVID-19 up to 30 June 2020 included costs of \$2.5 million mainly on personal protective equipment and staffing, with temporary funding increases provided by the Commonwealth absorbing these effects.

The non-cash impairment charge results from declining financial performance, the ongoing uncertainty of future sector funding and financing, exacerbated by the impacts of COVID-19.

We recorded a full year loss after tax of \$116.9 million, after the non-cash impairment charge of \$144.6 million.

As a result and as a prudent measure in uncertain times the Board has determined not to declare a final dividend for the year. Total dividends for the year are therefore 5.4 cents per share, fully franked. As a Board, we know how important dividends are to you and we will look to restore them when it is appropriate to do so.

As one of Australia's largest residential aged care providers, we understand the critical role we play in meeting the growing need for the community to have access to affordable, high quality and safe residential aged care as our population over 85 almost doubles over the next 20 years.

Our strategic priorities remain to continually improve the quality of care and amenity for our residents, while sustainably growing available residential places through measured, well-executed investment in new homes and redevelopment of existing homes across our portfolio.

We will maintain our disciplined approach as inevitable sector consolidation continues in line with the growing specialisation and complexity of residential aged care.

During the year we invested \$80.6 million of capital in our portfolio. This included: completing our new home for 126 residents at Maroochydore in Queensland; progressing our 105 bed home in Blakehurst NSW; the refurbishment and improvement of 13 homes with 1,187 resident places, improving the quality of amenities provided to residents, and bringing the total number of our homes qualifying for the higher accommodation supplements to 47.

Our home at Southport in Queensland for 110 residents, opened in May 2019, has sustained 100% occupancy since early February this year. Maroochydore opened in August 2019 and reached 89% occupancy by 31 October this year.

Both homes deliver high quality care in outstanding contemporary environments and are delivering financial performance ahead of expectations, contributing net positive EBITDA of \$0.5 million during their start up in FY20.

The Group has a development pipeline with capacity to deliver approximately 600 new resident places over the next three to four years.

The redevelopment of our home at Blakehurst in Sydney is on schedule to open in February 2021.

We have progressed planning for our greenfield sites at Aberglasslyn in New South Wales; Mt Barker and Toorak Gardens in South Australia; at Bentleigh in Victoria; and the redevelopment of our home at Burton in South Australia.

We have paused work on all these projects including our greenfield site at St Ives in Sydney and will assess sector policy, funding and economic conditions before committing further investment capital.

Your Company is on a solid and sustainable path for the future.

### **Strong clinical governance**

Last year, I spoke about our commitment to continually strengthening our clinical governance systems to ensure the highest quality care is consistently delivered for our residents. The trend for increasingly complex clinical requirements in residential aged care homes is accelerating, driven by later age at entry, complex co-morbidities and dementia; and therefore increasingly acute care needs of new residents, overlaid with the required response to COVID-19.

The sector will require well-resourced scale providers like Estia Health, with governance systems in place and well-qualified, committed management and skilled employees to meet this increased need for specialised clinical expertise and significant investment.

Estia Health monitors the changing clinical requirements and community expectations of care through our clinical governance system. We appointed Professor Simon Willcock of Macquarie University as independent chair of our Clinical Governance Committee and also introduced the position of independent external pharmacist to this Committee to provide expert oversight of medication management risk. We have also recently appointed an Infectious Diseases Physician to the Committee in response to the specific needs of COVID-19.

The Board's COVID-19 Risk Committee provides additional oversight and monitoring of our clinical performance to ensure we deliver safe and high-quality care.

### **Sustainability**

We understand and are committed to fulfilling our responsibility to create social and economic value for our residents, their families, our staff and communities in which we operate. During the year the Board approved the Company's four-year Sustainability Strategy that will guide our efforts to support our people; promote diversity and inclusion in our homes and workforce; and actively manage our environmental impact and mitigate climate change risk.

The targets we have set ourselves for 2024 will create a lasting positive impact for all stakeholders in our business and in our communities and help us achieve our vision of making trusted aged care accessible to all.

We made significant progress on environmental measures during the year. We completed a further 44 renewable energy projects saving a forecast 3,367MWh of energy.

We upgraded laundry facilities at 22 homes, reducing our carbon emissions by a further 230 tonnes and diverted over 60 tonnes of waste from landfill by replacing single use pre-thickened water with a non-disposable process. These three environmental initiatives are forecast to save over \$1 million a year.

Following our supply chain review last year, the Company has engaged with high-risk suppliers regarding their own progress towards compliance with the Modern Slavery Act 2018. We will produce our first Modern Slavery Statement in line with the March 2021 deadline.

We are also pleased to report that our merit-based appointment policy and practice places Estia Health as one of the most diverse employers listed on the ASX. We are one of the highest ranked gender balanced ASX300 companies, as reported in the CEW Senior Executives Survey 2020.

## **Reform**

Amplified by COVID-19, the Australian aged care sector continues to undergo significant change. Community expectations are evolving and the costs of providing high quality and safe residential aged care continue to increase.

Policy settings and funding for the sector are not keeping pace with these changes.

As the Royal Commission into Aged Care Quality and Safety and the Aged Care Financing Authority have indicated, sector reform is long overdue and is essential for the sector to continue to attract the substantial capital required to finance the construction of new facilities for the sector, while also continuing to deliver the highest quality and safe care and services for residents.

Our CEO, Ian Thorley was invited to prepare a statement and appear before the Royal Commission hearings on Funding and Financing in September 2020. During the two years that the Royal Commission has been sitting, this has been the only occasion the Company has appeared.

Estia Health strongly supports the call by the Royal Commission for significant reform of the aged care system. We are committed to co-operating with the Government and regulators to ensure the sustainable delivery of high quality, safe and affordable care for older Australians.

## **Remuneration**

The Executive Team assembled by Ian and his predecessor Norah Barlow, who still serves as a director on your Board, are regarded by many commentators and analysts as among the most respected and experienced in the sector. They have shown extraordinary commitment and dedication during the year. You will have noted in the Remuneration Report

that although the key management personnel and executive team achieved STI targets during the year, the Board and executive decided to forgo these.

The impact of COVID-19 will continue in this current financial year, particularly in Victoria, and Ian will discuss the first quarter shortly. We are committed to employing the financial and operational resources to meet the challenges of providing care and maintaining the safety and well-being of our residents and staff. It is not a responsibility we take lightly.

Our balance sheet strength, highly-credentialed executive and leadership team, diversified portfolio of 69 homes and our unrelenting focus on quality and governance, allows me to view the future with confidence. I am optimistic that the Royal Commission recommendations will deliver a plan to accelerate and deliver long overdue reform to the sector; reform that will result in the provision of the highest quality of care, delivered by organisations with the capacity, culture and governance to fulfill that obligation and invest for the future benefit of residents, staff and taxpayers.

Before I ask Ian to address you, I would like to thank my fellow Directors, our Executive team and each of the 7,500 dedicated and passionate members of the Estia Health team who deliver exceptional care to our residents, every day.

I would finally like to thank you, our shareholders, for your ongoing support and belief in Estia Health's mission to deliver person-centred services and high quality, safe clinical care for each of our 8,000 residents..



## CEO's Address- Mr Ian Thorley

Thank you, Gary and good afternoon everyone.

### **Estia Health's Response To COVID-19**

COVID-19 has dominated the way we live as a community since early 2020. The impact on residential aged care over the past 10 months has been unprecedented, as nothing before has provided a frame of reference for the actions that we were required to implement given the nature of the virus.

Our residents, their families and our employees have had to endure significant stress and uncertainty. As with Gary, may I extend my deeply felt condolences to those families who have lost loved ones.

During FY20 our employees have met the challenges presented by the pandemic and the bush fires, making personal sacrifices and demonstrating capability, courage and resilience. I am extremely proud of how our teams have selflessly cared for our residents, their families and each other.

I would like to talk in some detail about our response to COVID-19 and to share some photos from homes showing our response to the challenges.

### ***COVID 19 Overview***

At the start of the pandemic, the Board set up a COVID-19 sub-committee that met as frequently as three times a week during the peak of the pandemic. The Board endorsed management to take whatever steps were necessary to ensure our residents were protected and well cared for and our employees safe.

In February we established a Critical Incident Management Team and engaged an external risk expert to review our emergency response, disaster recovery and business continuity plans to ensure they reflected the expected challenges posed by COVID-19. This proved to be a critical action in enabling us to manage the challenges confronted over the following months.

As more was learnt about COVID-19, our infection control procedures were adapted to respond specifically to the characteristics of the virus. We put in place specific infection control policies and procedures for resident admissions and visitors and have continually evolved these. We enhanced the infection prevention and control training at every home. We continue to review and align our response to the incidence of community transmission and Federal and State health directions and guidelines.

In March we introduced paid Quarantine Leave for employees to ensure that staff were confident in reporting any possible exposure to COVID-19 and to know that they would be financially supported in those circumstances. This has been a major element of our defence and in the period from March to the end of September, 1350 employees took 40,718 hours of Paid Quarantine Leave.

We upgraded our Employee Assistance Program to support our frontline employees and also our central service teams as they adapted to remote working. We enhanced our cyber security to meet the potential risks of remote working.

When it became evident in early March that nationwide supply chains of personal protective equipment may not cope with anticipated demand, we moved quickly to secure alternate supply chains. We continue to hold stock of personal protective equipment at homes and regional hubs.

We invested in technology and increased the number of employees to support resident and family contact through face time and window visits. Many of our new Resident Liaison Officers joined us from the heavily impacted travel and hospitality sectors.

By June the incidence of COVID-19 in the community was minimal and while restrictions had relaxed we continued to assess the measures we had put in place. As we now know, COVID-19 came back with great speed.

Eleven of our homes experienced outbreaks and notwithstanding the fact that we adopted the same rapid response plan at each the COVID-19 outbreaks in Ardeer, Keilor, Keysborough and Heidelberg West homes resulted in the deaths of 36 residents and this caused a great sense of loss and sadness for residents, their families and our employees. In all cases our employees were not displaying symptoms of the virus at the time they worked.

To ensure we could communicate well with our families and staff we set up dedicated teams to provide regular updates on the residents and the changing circumstances within each home. This included psychological counselling. We provided regular updates to the community through our website; daily individual updates to family members on their loved ones' comfort and condition; and a dedicated support line for families to contact the home.

Estia Health's Chief Customer Officer Damian Hiser and I held weekly virtual meetings for each home so we could personally provide updates for families on what was happening in the home.

At the height of the second wave, we asked our staff in Queensland and New South Wales if they would be willing to fly into Melbourne to support our local teams to care for our residents. We received more than 150 Expressions of Interest - A truly remarkable show of Estia Health's values in action.

COVID-19 will remain a challenge for the foreseeable future. We have committed additional Infection Prevention and Control resources into our permanent workforce in all of our 69 homes.

We have engaged a leading Infection Prevention Control company on a long term group-wide contract to provide expert advice on infection control, undertake independent audits of all our homes, provide further specialist Infection Prevention Control education for our employees and be a central resource for the latest advice provided by national bodies and international sources.

From our experience in Victoria we have commenced a COVID-19 outbreak simulation program. Our Chief Quality and Risk Officer together with Sean Bilton, Chief Operating Officer, who co-ordinated our Victorian response, are working with our home managers and their teams to pressure test policies and local COVID 19 response plans in a real time simulated environment.

COVID-19 has seen us adopt new ways of operating, with new staffing responses, rapid deployment of new technology, almost daily changes to operating systems all of which demonstrated the capacity of this Company to be tested under extreme circumstances.

### **Operating Performance**

In a Trading Update to the ASX today we have highlighted the key components in more detail than I will cover here. As the COVID-19 impact has not been consistent across the States where we operate aged care homes, we have provided information for our Victorian homes separately.

The information is based on internal management accounts which have not been subject to audit.

Outside of Victoria, our homes have performed reasonably well, with occupancy averaging 93.7% during the First Quarter and spot occupancy of 93.2% at 31 October. In Victoria average occupancy during the Quarter was 86.8% and was 83.2% at 31 October.

Total revenues for the September Quarter were \$158.9 million, including \$0.8 million of Temporary Funding and \$10.9 million of imputed DAP revenue on RAD balances in accordance with AASB 16.

The Group has incurred incremental employee costs from the impact of COVID-19 of approximately \$6.0 million in the Quarter, totalling \$4.4 million in Victoria and \$1.6 million in other States. The majority of the costs were incurred in managing the outbreaks at four homes in Melbourne at the height of the second wave, Ardeer, Heidelberg West, Keysborough and Keilor Downs. We have also incurred and continue to incur costs associated with additional Resident Liaison Officers and Infection Prevention Control Supervision and Training at all homes.

The Group has incurred incremental non-employee costs from the impact of COVID-19 of approximately \$6.2 million in the Quarter, totalling \$3.6 million in Victoria and \$2.6 million in other states. The majority of the costs relate to Personal Protective Equipment, cleaning and waste disposal incurred in managing the outbreaks at Ardeer, Heidelberg West, Keysborough and Keilor Downs.

Net RAD flows have been largely unaffected by the pandemic and are \$840.6 million at 31 October 2020, an increase of \$4.3 million since 30 June 2020, and probate liability has decreased by \$9.2 million to \$90.7 million.

Net debt at 31 October was \$114.5 million, providing liquidity of \$211.2 million under the Company's syndicated loan facility.

Given the degree of uncertainty and unpredictability of COVID-19 related outbreaks in the community and individual home level, the results reported for the first Quarter cannot be regarded as forming a reliable indicator of operational or financial performance for future periods until circumstances stabilise in relation to COVID-19.

### ***Sector Reform Agenda***

I wish to reinforce Gary's points on the importance of reform in the sector.

Residential aged care requires significant structural reform to create a genuinely competitive and market-based system for the benefit of aged care residents.

The trend to delayed entry into care is seeing increasing complexity and specialisation of residential care. This will require reforms to address the specialised workforce skills required of future residential care and ensuring that aged care is an attractive sector for health professionals. Residential aged care services will significantly change with this increasing complexity and this will more than likely lead to a very different industry structure. The sub-optimal scale of many residential care operators has been noted in various reviews of the sector. Scale contributes to efficient and effective use of capital, and supports innovation and quality.

We note that the closing summaries made last month by the Counsel Assisting the Royal Commission, reflect many of the positions held by Estia Health on the reforms required to ensure a sustainable sector. We look forward to the Royal Commission's Final Report being handed down in February 2021.

Reform is essential for the sector to continue to attract capital, provide sustainable returns and deliver the highest quality services to residents. Apart from ~230 aged care homes that are owned and operated by State Governments, the remaining 2500 aged care homes in Australia are financed by private balance sheets.

If private capital is going to be available to support the significant investment required for the sector in coming years, then fundamental reform of financing and funding will be required.

The key reforms we presented to the Royal Commission and advocate for include:

- Addressing the inefficient structure that supports subscale residential aged care operators, many of which will not be able to meet the future demands of a specialised sector of Australia's health economy.
- Reforming the ACAR system that currently impedes competition, protects inefficient providers, results in underinvestment in assets and innovation and reduces consumer choice.

- Provide revenue streams to sustain the costs of providing quality care, whether from Government or residents, including ensuring that those with the capacity to contribute to the cost of their care do so in more equitable way.
- Regulatory uncertainty that negatively impacts investment in the sector.
- Inadequate prudential oversight over the ~ \$30 billion of Refundable Accommodation Deposits balances that sit as liabilities on Approved Provider Balance Sheets,

People entering residential care worry about having to change their lifestyle and about losing varying levels of independence. Elderly Australians have a right to feel they are in a safe, supportive and respectful environment that allows them to remain connected and involved with their family and their community.

We monitor resident satisfaction by the Consumer Experience Report instrument or CER developed by the Aged Care Quality and Safety Commission and for the September FY21 quarter our satisfaction result was 94.5%. We used the CER to monitor satisfaction during the restrictions imposed via State governments during the COVID-19 outbreaks.

Although we have had a number of Not Met outcomes during the year these were adequately resolved and currently all Estia Health homes are Accredited. No Estia Health home has ever been sanctioned.

We understand that when entering residential aged care, choosing a home that will deliver safe and high quality care can be a complex process and a difficult decision. The capability and number of care staff is often viewed as an indicator of quality and safety.

For many years, we have had a Registered Nurse led staffing model, which is adjusted to the clinical and care needs of the residents in each home. Registered Nurses are rostered 24 hours a day, seven days a week in all homes.

We understand that the recruitment, training and retention of qualified and caring employees are critical to the care and wellbeing of our residents. Our employee turnover reduced to 18.3% from just over 20% last year and our use of casual labour, which is used for short leave purposes, was 8% by the end of June 2020.

Estia Health has commenced implementing some of the strategic actions from the Aged Care Workforce Strategy including the competency-based skills mapping for eight critical customer-facing roles. These competencies form the foundation of the recruitment, training and appraisal programs to ensure that our 7,500 employees are equipped to meet the care needs of our residents.

Our bi-annual employee engagement survey undertaken in the first half of FY20 showed that Estia Health has higher employee engagement than the providers who participate in the Best Practice Australia survey.

Our workplace culture has resulted in a further improvement of our LTIFR to 4.9 as at 30<sup>th</sup> June.

Thank you again to the Estia Health team for the work you do every day to care for and support our residents and their families. Your dedication has never been more evident than during the last 10 months. There have been many exceptional stories of employees going above and beyond during the COVID-19 emergency. Be proud of the critical role you have played in supporting and caring for our residents. Your acts of kindness and professionalism are greatly valued and respected.

Thank you to the Board for your guidance through the challenges of this year and to you our shareholders for your ongoing support of Estia Health.