

Morgan Stanley Conference

6th June 2018

Estia 
Health

Mudgeeraba Queensland

Delivering high quality residential aged care services to everyday Australians



**One of
Australia's
largest
aged care
providers**



**68
operational
homes**

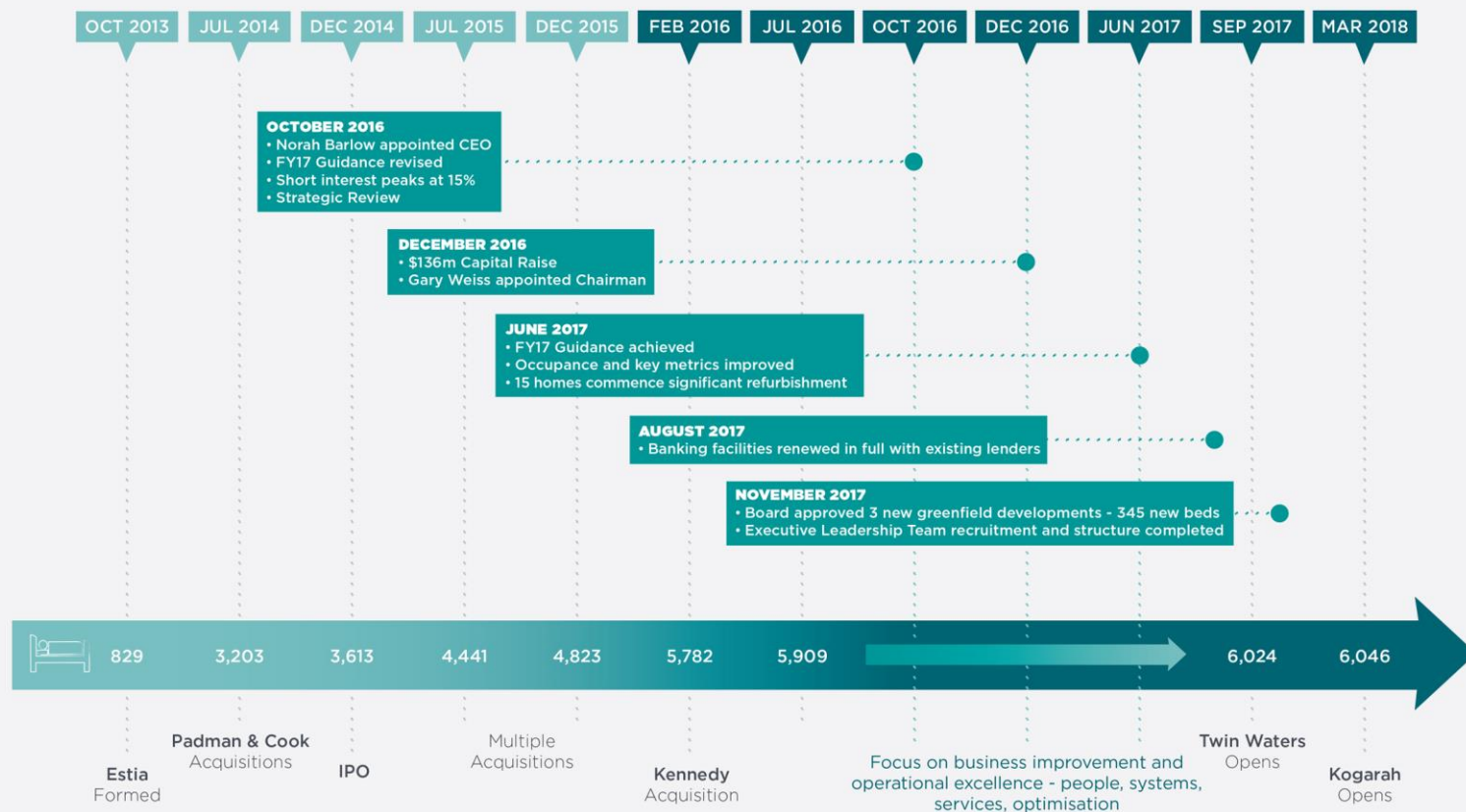


**Care delivered
to 8,000+
older
Australians
annually**



**Employing
over 7,000
staff**

Estia Timeline



1H FY18 FINANCIAL OVERVIEW

\$271.7m

OPERATING REVENUE

Up 3.3% on 1H FY17

\$45.4m

EBITDA¹

Up 5.6% on 1H FY17

\$20.3m

NPAT

Up 2.5% on 1H FY17

\$51.1m

OPERATIONAL CASHFLOW²

113% EBITDA/Cash conversion

\$42.3m

NET DEBT³

7.78 cents

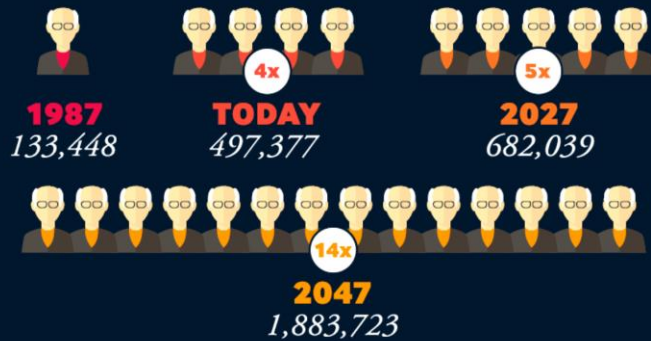
EARNINGS PER SHARE

Decrease of 24.5% on 1H FY17 due to dilution impact of FY17 capital raise

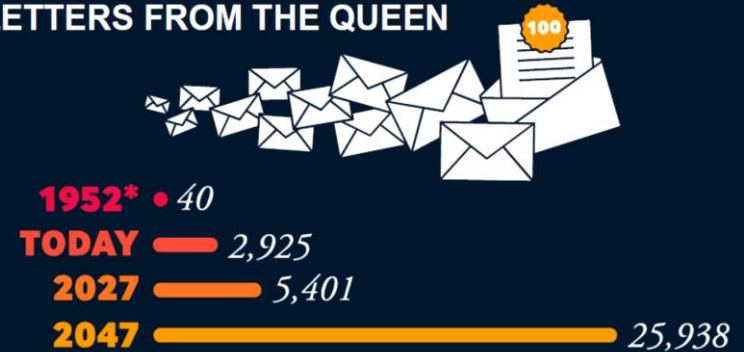


AGED CARE DEMAND

85+ POPULATION



LETTERS FROM THE QUEEN



*The year Queen Elizabeth became sovereign

GROWING NEED

In the next 30 years Australia will have

+1,400,000 MORE PEOPLE AGED 85+

The average older Australian will live



1.5 YRS LONGER THAN TODAY

↓ ↓ ↓ **THIS EQUATES TO** ↓ ↓ ↓

AN EXTRA 2,100,000 YEARS OF CARE

mccrindle.com.au

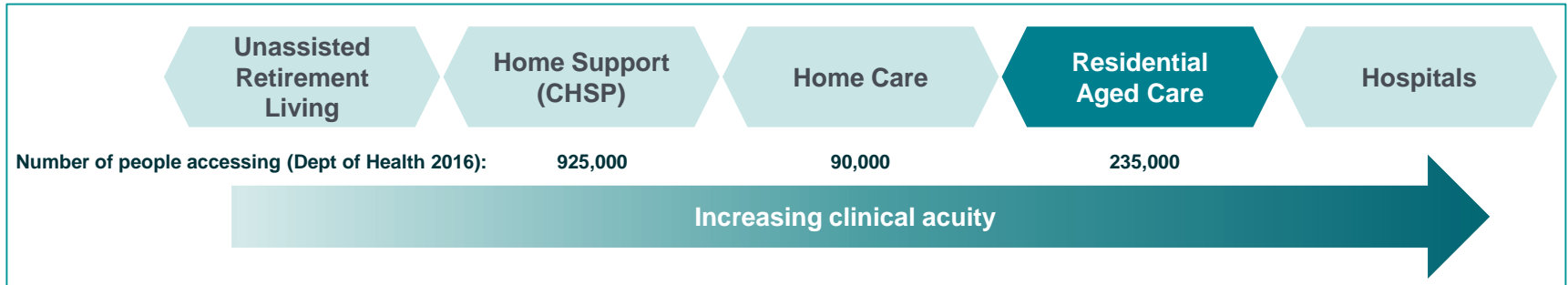
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1. Source © McCrindle, Source ABS

CARING FOR OLDER AUSTRALIANS

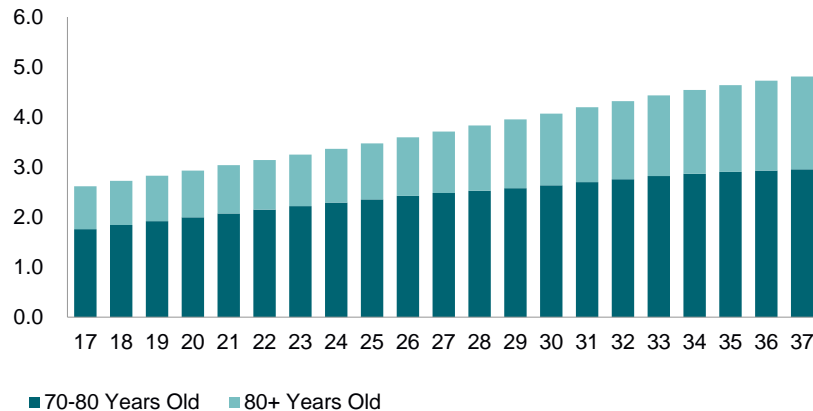
Residential Aged Care is not a choice; it is a critical necessity for the many older Australians who become unable to live unassisted at some stage in their life.

The continuum of care for older Australians



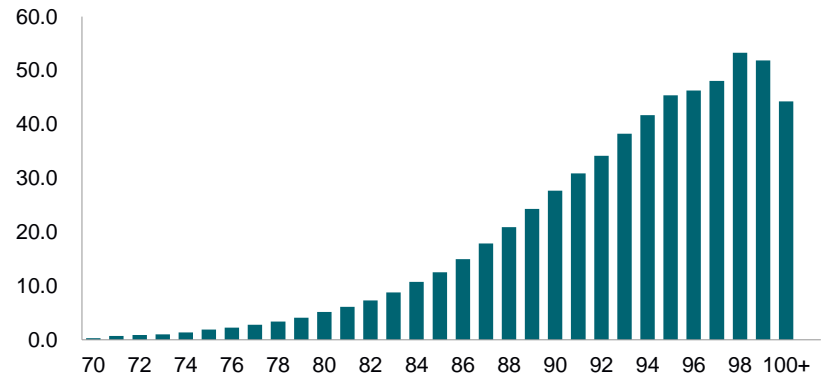
Population Aged Over 80 Expected to More than Double in the Next 20 Years

Millions of People Aged 70 Years and Over, 2017 to 2037



Residential Aged Care Utilisation Increases Significantly for Persons Aged Over 80

% of Females of Each Age Using Residential Aged Care, 2016



Graph sources: ACFA Funding Report July 2017, ABS 3222.0

RESIDENTIAL AGED CARE SECTOR OVERVIEW

Regulatory environment

- Strongly regulated operational framework, creating high barriers to entry
- Increasing sector advocacy leads to stronger Government focus
- Multiple committees looking at quality of care in the sector

Opportunities

- Fast growing ageing population
- Continued Government support - CAGR of above 5% expected over next 3 years
- A necessary part of the health of older persons continuum will continue to be supported
- Demand will be circa 76,000 additional beds over the next 10 years

Consolidation opportunities

- Sector relatively fragmented with circa 60% of operators still operating a single home.
- Increased costs to operate in sector will speed consolidation
- Increased focus on quality will lead those less resourced to opt out
- Ageing stock in sector with multiple bed sizes, not suitable for future market

Consumer Driven changes

- Increased demand for home support will see focus on quality operations at higher acuity
- Increased consumer expectations will see demand for single rooms and better quality
- Quality of care is the expectation, not able to be compromised

Well governed, quality-focused operators with scale and capital have the ability to respond to regulatory change, continue to invest in their portfolios and services as well as consider potential consolidation opportunities

ESTIA'S COMPETITIVE ADVANTAGES

- Established and experienced leadership team
- Strong balance sheet, low gearing
- Sustainable profitability driven by robust operational metrics
- Established, scalable centralised processes delivered through regional model of network clusters
- High quality portfolio
- Proven ability to develop and commission new homes – with pipeline in hand
- Our people and care focus

PEOPLE: CULTURE, QUALITY & CARE



IAN THORLEY

Dalmeny, New South Wales

PEOPLE AND CULTURE

- Staff Engagement Survey September 2017
- Organisational Development – Leadership series building management capacity
- Clinical Development – Underpinning our service standards
- Graduate Nurse Program
- Electronic learning platform – ELMO supports mandatory training and compliance requirements
- Registered Nurse led acuity based staffing model

Underpinning standards, supporting attraction and retention of staff



COMMITMENT TO QUALITY

- Legislative change
 - Aged Care Quality and Safety Commission - January 2019
 - New Aged Care Quality Standards
- Increasing advocacy
- Governance
 - Clinical risk monitored by Board Risk Committee
 - Directly reports to the Chief Executive Officer
 - Independent external reviews
- Systems and Processes
 - Uniform Clinical Standards
 - Quality and education functions are independent of operations
 - Clinical Indicator benchmarking – informs potential risk
 - Group wide clinical standards and compliance
- All homes fully compliant with AACQA Standards
- Independent whistle blower hotline



CUSTOMER EXPERIENCE

- Increasing consumer expectations
- Care model supports resident independence and choice
- Specialised care for residents living with dementia
- More complex care required for those residents delaying their entry to residential care
- Network model provides care and accommodation options for local communities
- Additional Services enhance the resident experience:
 - Technologies
 - Lifestyle and activities
 - The dining experience



PROPERTY GROWTH & DEVELOPMENT



RITA SHERIDAN

Twin Waters, Queensland

PROPERTY PORTFOLIO

Key Portfolio Statistics (as at 1 June 2018)

Number of homes

Metro 52

Regional 16

Total number of operational homes 68

Freehold sites 61

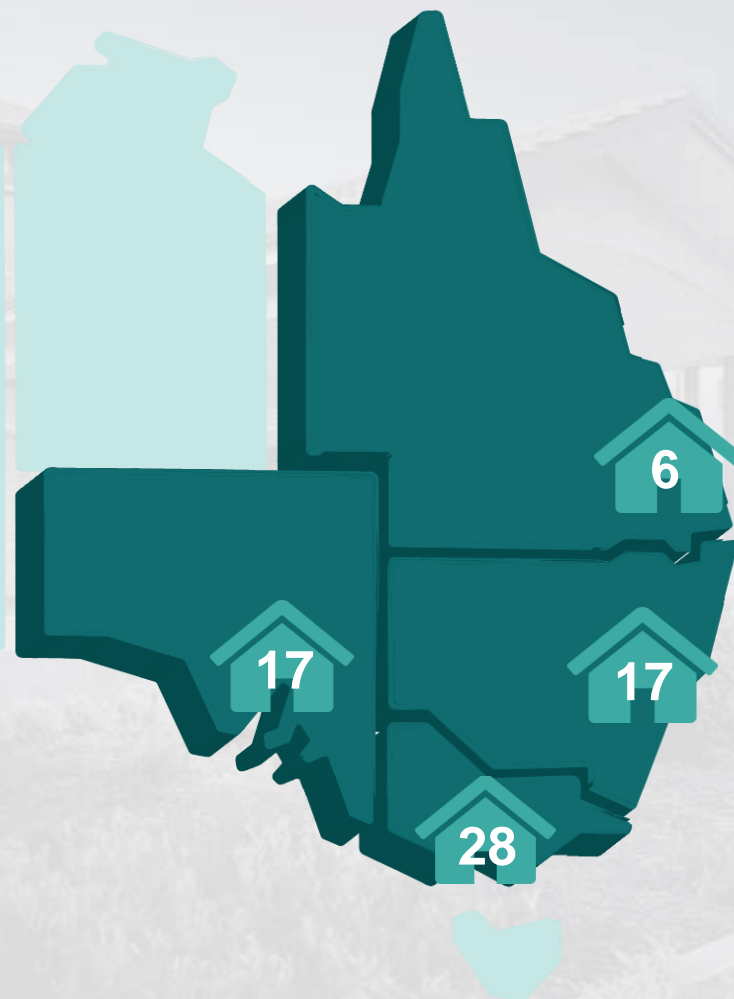
Total operational places 6,045

Number of single rooms 4,875

Single rooms as percentage of total rooms 90%

Average number of places per home 89

Number of homes receiving significant refurbishment supplement 16



GROWTH STRATEGY OVERVIEW

Delivering solid and sustainable growth to create value for our shareholders



PORTFOLIO ENHANCEMENT

- Utilisation of land adjacent to operational homes
- Optimisation of the portfolio building stock through significant and strategic refurbishments
 - 16 homes currently receiving higher accommodation supplement (1,631 beds)
 - 15 homes approved and underway (1,301 beds)
- Stage 1 sustainability projects of \$5m nearing completion
- Enhanced resident experience
- EBITDA uplift through supplement
- Room value uplift
- Protection of asset lifecycle
- Improved market appeal

PORTFOLIO EXPANSION

Completed

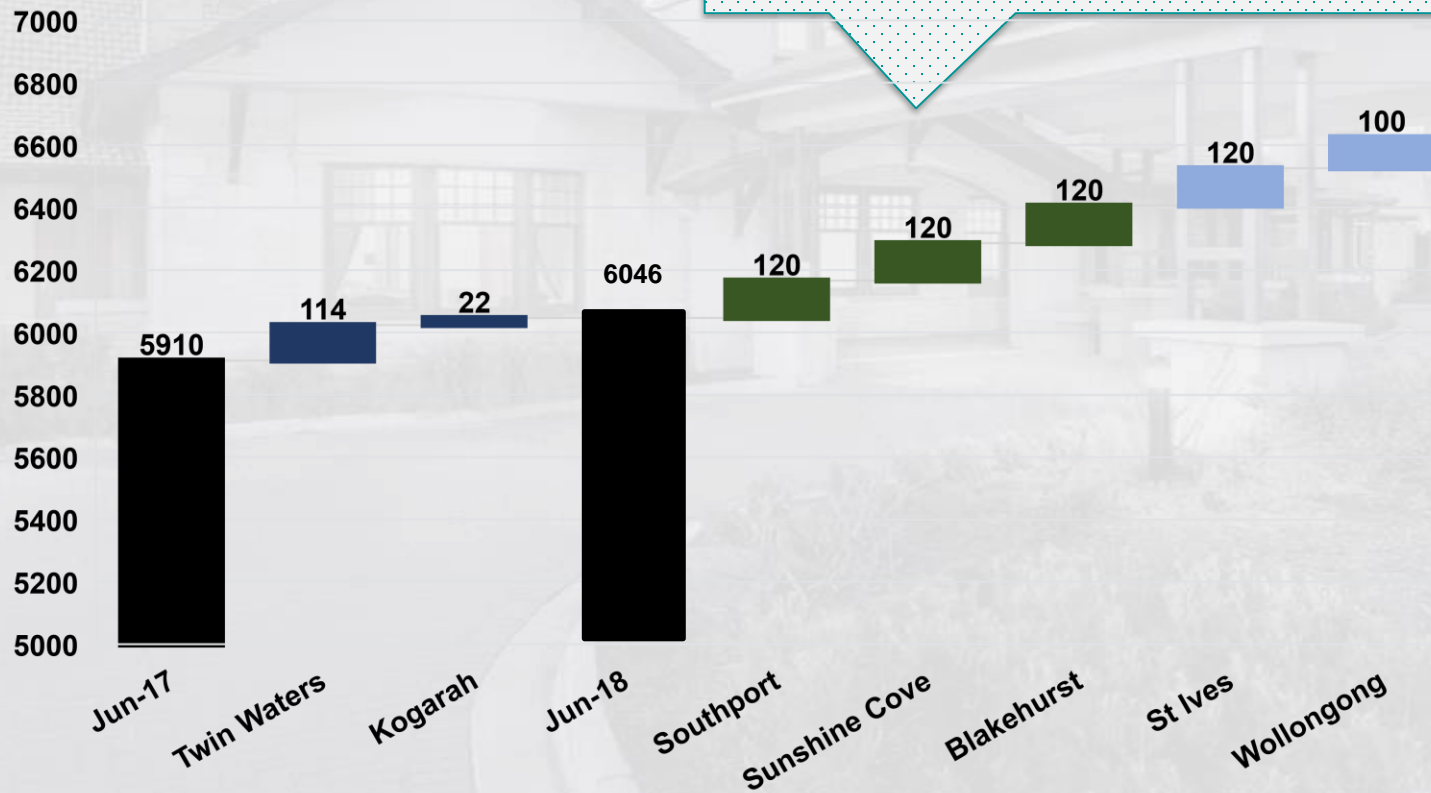
- Twin Waters – September 2017 (114 New Beds)
- Kogarah – March 2018 72 Beds (additional 22 beds)

Underway

- Southport, Sunshine Cove, Blakehurst (345 New Beds)

Pending Final Approvals

- St Ives, Wollongong (~220 New Beds)



PORTFOLIO EXPANSION - ACQUISITIONS

Criteria will include an assessment and weighting of multiple factors:

- Network proximity
- Age of Home, future capital needs and life
- Quality, size and layout of home
- Demographics, need, competitive environment
- Existing resident population
- Barriers to implementing Estia's operational and care model
- RAD balance and future outlook for RAD residents
- Commissioning considerations – staff, residents, timescales

Acquisitions will be existing operational homes or turnkey new homes, and will be earnings accretive, either on stand-alone basis or as part of a capital recycling plan.

LOOKING FORWARD

NORAH BARLOW

Dalmeny, New South Wales

SECTOR REFORM

- Uncap bed supply
- Greater prudential requirements given amount of RADs invested in sector
- User pays extended to all who can afford to pay
- Tune Review recommendations could provide clarity for staff, residents, families and investors
- Introduce nationwide standards for training of care workers
- Register all aged care workers, including those in home support work, to remove those who should not be in the sector

LOOKING FORWARD

Sector

- Robust future demand
- Future demographics are certain
- Necessary part of society caring for older people
- Will remain key to government policy
- No ability to replace people with technology, only to enhance productivity
- Regulatory change, such as tighter prudential management, providing a further barrier to entry
- User pays will increase

Estia

- Leadership depth
- Financial resources to continue to invest in people, systems and property
- Steady growth able to be built upon now stabilised
- Solid balance sheet with good liquidity
- Opportunities to increase revenue through adding capacity, further significant refurbishment to our existing homes, and increased additional service offering

Estia, as a well-governed, quality-focused operator with scale and capital, has the ability to respond to regulatory change, to invest in its portfolio and services, as well as grow capacity through development and acquisitions.



Appendices

APPENDIX A: DETAILED FINANCIAL METRICS AND TRENDS

	1H FY17 \$'000	2H FY17 \$'000	1H FY18 \$'000
Government Revenue	194,722	193,377	200,883
Resident Revenue	68,391	68,140	70,861
Total Operating Revenues	263,113	261,517	271,744
Employee benefits expenses	168,476	171,039	178,138
Non Wage Costs	51,675	46,940	48,185
EBITDA	42,962	43,538	45,421
Profit on Asset Disposals	-	1,037	387
Depreciation, amortisation and impairment	8,471	10,389	13,880
Operating profit for the period	34,491	34,186	31,928
Net finance costs	5,854	3,769	3,803
Profit before income tax	28,637	30,417	28,125
Income tax expense	8,879	9,477	7,867
Profit for the period	19,758	20,940	20,258
<i>Government Revenue POBD</i>	<i>\$192.6</i>	<i>\$192.3</i>	<i>\$196.0</i>
<i>Resident Revenue POBD</i>	<i>\$67.6</i>	<i>\$67.8</i>	<i>\$69.1</i>
<i>Total Revenue POBD</i>	<i>\$260.2</i>	<i>\$260.1</i>	<i>\$265.1</i>
<i>Staff Costs POBD</i>	<i>\$166.6</i>	<i>\$170.1</i>	<i>\$173.8</i>
<i>Non-Wage Costs POBD</i>	<i>\$51.1</i>	<i>\$46.7</i>	<i>\$47.0</i>
<i>Non-Wage Costs excl facility rentals POBD</i>	<i>\$48.5</i>	<i>\$44.2</i>	<i>\$44.6</i>
<i>EBITDA Per Occupied Bed Per Year</i>	<i>\$15,509</i>	<i>\$15,804</i>	<i>\$16,222</i>
<i>Total Staff Cost % of Revenue</i>	<i>64.0%</i>	<i>65.4%</i>	<i>65.6%</i>
<i>Total Non-Wage Costs % of Revenue</i>	<i>19.6%</i>	<i>17.9%</i>	<i>17.7%</i>
<i>Non-Wage Costs excl facility rentals % Revenue</i>	<i>18.6%</i>	<i>17.0%</i>	<i>16.8%</i>
<i>EBITDA % of Revenue</i>	<i>16.3%</i>	<i>16.6%</i>	<i>16.7%</i>
<i>Net RAD Receipts \$m</i>	<i>\$38.7</i>	<i>\$41.4</i>	<i>\$33.6</i>
<i>Average RAD/Bond held</i>	<i>\$263,208</i>	<i>\$275,037</i>	<i>\$283,999</i>
<i>Average Incoming Agreed RAD</i>	<i>\$376,854</i>	<i>\$408,768</i>	<i>\$406,405</i>
<i>Average Outgoing RAD/Bond</i>	<i>\$292,334</i>	<i>\$325,380</i>	<i>\$332,715</i>
<i>Total RADs/Bonds Held \$m</i>	<i>\$690.4</i>	<i>\$730.2</i>	<i>\$762.8</i>

APPENDIX B: STATUTORY BALANCE SHEET

	31 Dec 17 \$'000	30 Jun 17 \$'000
Current assets		
Cash and cash equivalents	17,706	19,215
Trade and other receivables	9,571	10,359
Prepayments and other assets	8,182	5,353
Assets held for sale	-	2,561
Income tax receivable	73	
Total current assets	35,532	37,488
Non-current assets		
Property, plant and equipment	730,579	723,549
Investment properties	1,500	1,500
Goodwill	817,074	817,074
Other intangible assets	218,666	218,916
Total non-current assets	1,767,819	1,761,039
Total assets	1,803,351	1,798,527
Current liabilities		
Trade and other payables	35,059	28,855
Loans and borrowings	-	264
Income received in advance	31,348	24
Refundable accommodation deposits and bonds	762,823	730,222
Other financial liabilities	1,261	1,293
Income tax payable		4,227
Provisions	40,407	38,955
Total current liabilities	870,898	803,840
Non-current liabilities		
Deferred tax liabilities	107,164	108,765
Loans and borrowings	60,000	121,250
Provisions	4,411	3,441
Other payables	88	115
Total non-current liabilities	171,663	233,571
Total liabilities	1,042,561	1,037,411
Net assets	760,790	761,116
Equity		
Issued capital	801,833	801,830
Share-based payments reserve	934	673
Accumulated losses	(41,977)	(41,387)
Total equity	760,790	761,116

Extract from Estia Health Consolidated Interim Financial Report for the half-year ended 31 December 2017.

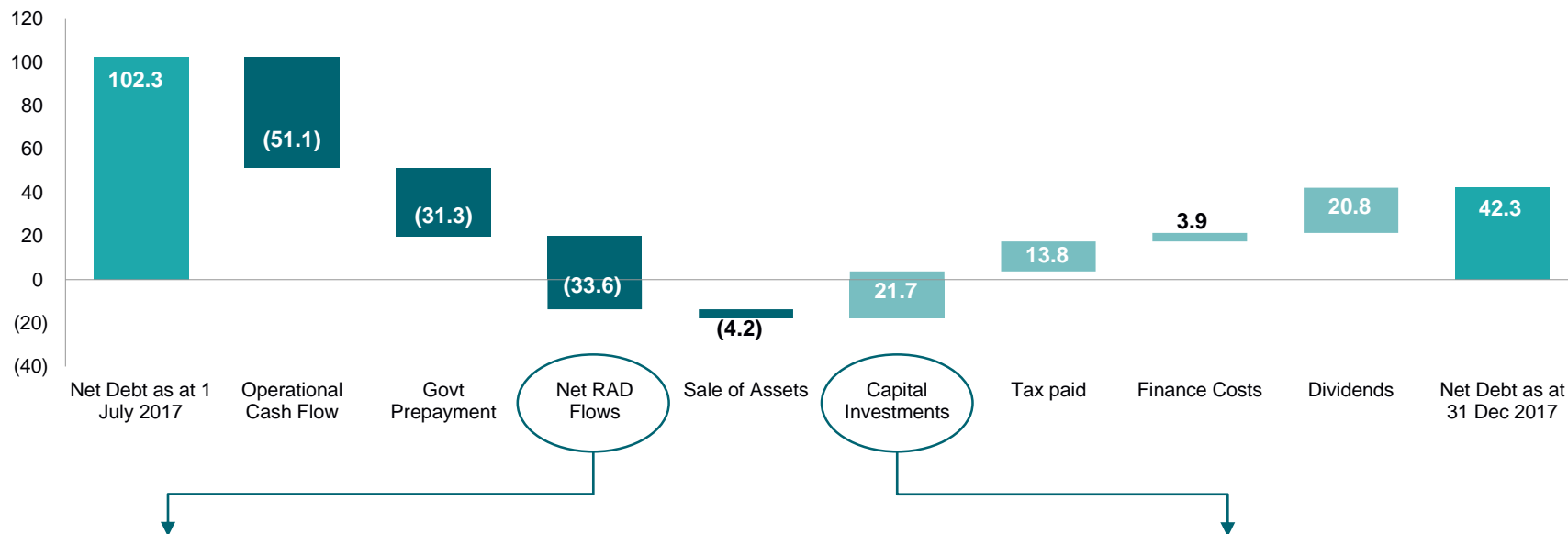
APPENDIX C: STATUTORY CASHFLOW

	1H FY18 \$'000	1H FY17 \$'000
Cash flows from operating activities		
Receipts from residents	69,659	66,748
Receipts from government	232,785	231,732
Payments to suppliers and employees	(220,054)	(212,348)
Operational cash flows before interest, income tax and RADs	82,390	86,132
Interest received	125	319
Finance costs paid	(3,979)	(6,096)
Income tax paid	(13,768)	(20,374)
Net cash flows from operating activities before net RADs	64,768	59,981
RAD, accommodation bond and ILU entry contribution received	137,508	133,394
RAD, accommodation bond and ILU entry contribution refunded	(103,958)	(94,662)
Net cash flows from operating activities	98,318	98,713
Cash flows from investing activities		
Payments for business combinations, net of cash acquired	-	(86,364)
Payments for acquisition transaction costs	-	(6,764)
Payments for intangible assets	(322)	(822)
Proceeds from sale of property, plant and equipment	-	46
Proceeds from sale of assets held for sale	4,193	-
Purchase of property, plant and equipment	(21,339)	(24,006)
Net cash flows used in investing activities	(17,468)	(117,910)
Cash flows from financing activities		
Proceeds from issue of share capital	3	84,898
Payments for share issue costs	-	(3,090)
Proceeds from repayment of MEP loans	-	60
Proceeds from borrowings	20,000	76,500
Repayment of borrowings	(81,514)	(63,500)
Dividends paid	(20,848)	(19,242)
Net cash flows (used in)/from financing activities	(82,359)	75,626
Net (decrease)/increase in cash and cash equivalents	(1,509)	56,429
Cash and cash equivalents at the beginning of the period	19,215	29,810
Cash and cash equivalents at the end of the period	17,706	86,239

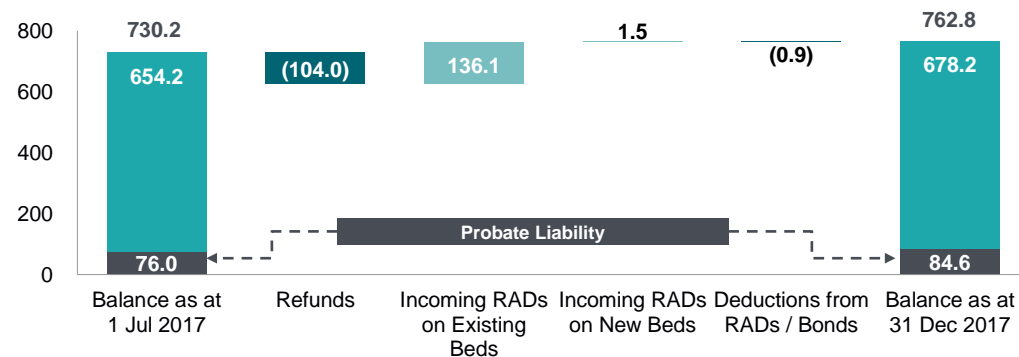
Extract from Estia Health Consolidated Interim Financial Report for the half-year ended 31 December 2017.

APPENDIX D :NET DEBT AND CASH FLOW 6 MONTHS ENDED 31 DECEMBER 2017

Net Debt Bridge (\$m)



Net RAD Inflow (\$m)



Capital Investments

	\$m
Maintenance Capex	6.5
Significant Refurbishments	6.4
New Builds	8.8
Total	21.7

1. Probate Liability refers to RADs and Bonds not yet refunded for departed residents, is included within the total RAD/Bond balance and increased from \$76.0m at 30 June 2017 to \$84.6m at 31 December 2017.

APPENDIX E: INDICATIVE NEW DEVELOPMENT CASHFLOW PROFILE



Based on:		
Beds		100
Land Cost		\$2,500,000
Construction, Planning, Design per bed		\$260,000
Residents:		
Concessional		35%
RADs as % of Non-Concessional		60%
Average RAD Price		\$500,000
Eventual RAD Pool		\$18,525,000
Occupancy		95%
Optimised incremental EBITDA POB PA		\$25,000
Gross Investment Cost		\$28,500,000
Net of RADs Investment Cost		\$9,975,000

APPENDIX F: BOARD AND MANAGEMENT

Board of Directors

Name	Title	Appointed
Dr Gary Weiss	Non-Executive Director and Chairman	NED Feb-16 Chairman Jan-17
Norah Barlow OMNZ	Chief Executive Officer and Managing Director	NED Nov-14 Acting CEO Sep-16 CEO and MD Oct-16
Paul Foster	Non-Executive Director	Feb-16
Andrew Harrison	Non-Executive Director	Nov-14
The Hon. Warwick L. Smith AM	Non-Executive Director	May-17
Helen Kurincic	Non-Executive Director	Jul-17

Executive Leadership

Name	Title	Appointed to Position
Norah Barlow	Chief Executive Officer and Managing Director	Acting CEO Sep-16 CEO and MD Oct-16
Ian Thorley	Deputy Chief Executive Officer and Chief Operating Officer	Oct-16
Steve Lemlin	Chief Financial Officer	Feb-17
Maryann Curry	Chief Nursing Officer	Dec-16
Mark Brandon	Chief Policy and Regulatory Officer	Dec-16
Mary Burke	Quality Director	Jan-16
Jane Murray	People and Culture Director	Jul-17
Fiona Caldwell	Chief Information Officer	Oct-17
Damian Hiser	Chief Customer Officer	Oct-17
Rita Sheridan	GM, Property & Development	Mar-18

Refer to Estia Health website for further detail.

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