

# “IN A NUTSHELL”

## THE RACE FOR MARKET DOMINANCE


*A Comparative Assessment of Listed Aged Care Providers in Australia*



OCTOBER 2015



# INTRODUCTION



The past two years has seen the industry enter a new realm with three aged care operators listing their companies on the Australia Stock Exchange (ASX): Estia Health, Japara Healthcare and Regis Aged Care. The attractiveness of the sector continues to drive strong PE multiples, currently ranging from around 24 to 28 times earnings. Volatility in other areas of the economy, especially mining and commodities, are assisting in the focused shift to safer long term prospects such as health and aged care.

All three listed providers have, and continue to, undertake aggressive acquisition and expansion strategies. The release of the 2015 annual reports and financial statements has highlighted strategies that have been adopted by each of the entities. Driving the performance and profitability of these companies is a number of factors including occupancy, subsidy claiming (ACFI), staff costs, resident composition and scale

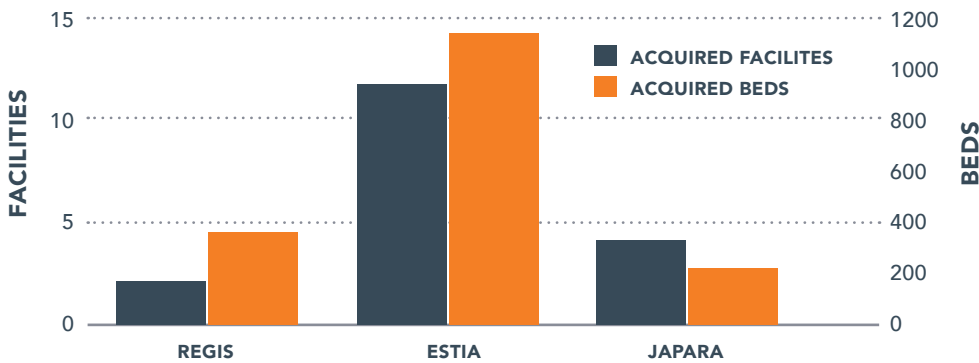
With large providers aiming to increase market presence, a growing number of acquisitions have taken place across the industry. Over the past two years, Ansell Strategic have received an unprecedented number of approaches from clients seeking to acquire aged care businesses. The trend is creating a very strong sellers' market and correspondingly high selling prices.

# RATE OF EXPANSION

Estia achieved the highest number of acquisitions during the 2015 financial year, acquiring 12 new facilities and an additional 1,123 beds. This represents a massive increase in their national portfolio, with additional beds representing 28% of their current portfolio.

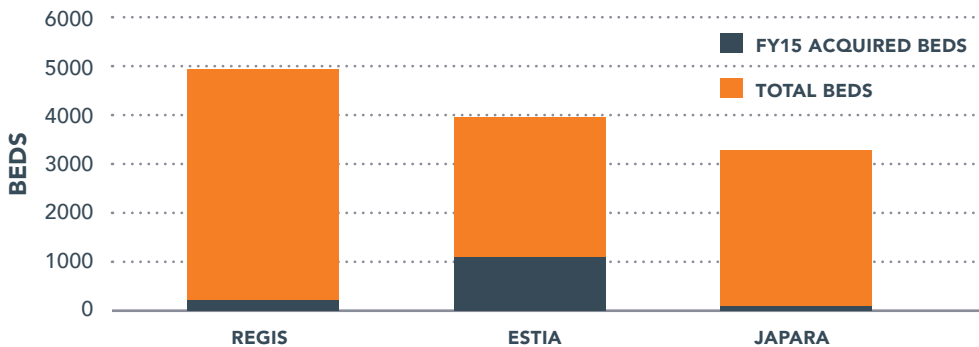
## FACILITIES & PLACES ACQUIRED IN FY2015

Source: FY2015 Annual Reports



## NUMBER OF OPERATIONAL BEDS AT 30 JUNE 2015

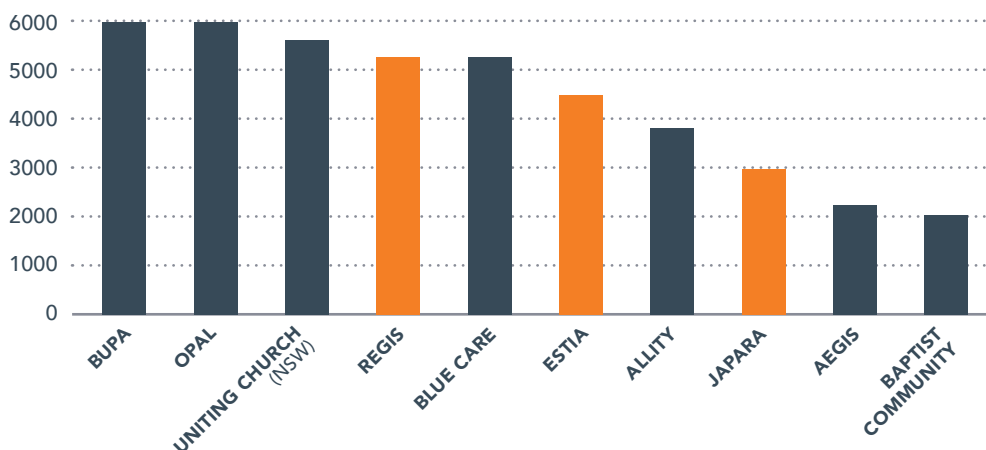
Source: FY2015 Annual Reports



Although the listed providers are aggressively seeking to expand their market share, the industry remains highly fragmented. This is evidenced below with the top 10 industry participants only accounting for around 20% of the market.

## TOP 10 PROVIDERS AT 30 JUNE 2015

Source: CLSA



# FINANCIAL RESULTS

The following provides a summary and high level analysis of the 30 June 2015 financial results of the listed companies.

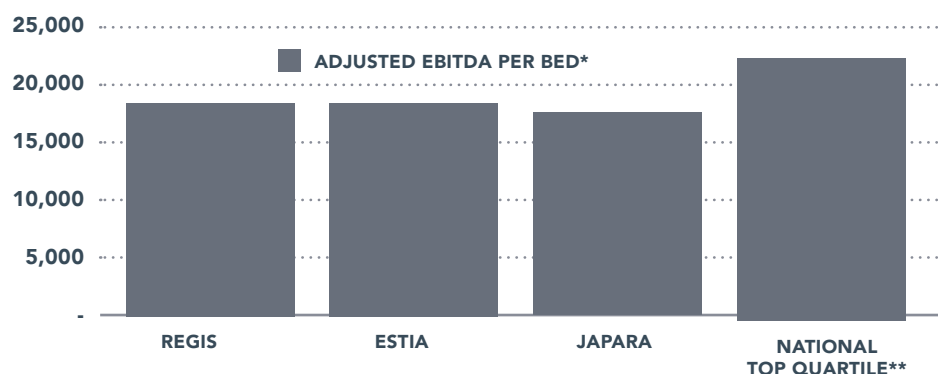
30 JUNE 2015 RESULTS SUMMARY	REGIS <sup>1</sup>	ESTIA <sup>1</sup>	JAPARA
Facilities (No.)	47	48	39
Operational Beds (No.)	5,034	4,010	3,207
Occupancy (%)	94.4%	93.6%	94.6%
<b>PROFIT &amp; LOSS</b>			
EBITDA (\$'000)	110,491	30,762	50,590
Profit Before Tax (\$'000)	78,086	-8,514	39,339
Basic EPS (cents)	21.16	-0.16	10.97
<b>BALANCE SHEET</b>			
Net Current Assets (\$'000)	-675,595	-511,580	-315,772
Net Assets (\$'000)	209,221	563,914	530,039
Cash at Bank (\$'000)	60,917	46,197	53,878
External Debt (\$'000)	-	54,250	-
RAD Liability (\$'000)	697,897	471,086	302,948
Average RAD received in FY15 (\$)	384,000	343,683	304,000

1. For comparison purposes, Estia and Regis' actual Statutory accounts have been used instead of the Pro-forma accounts.

The most prominent difference between the three listed entities is their respective EBITDA performance. Negatively impacting Estia's results are one-off costs relating to the acquisition of Cook Care and Padman Health and the acquisition of 12 facilities. Estia incurred \$30.7M in one-off acquisition costs during FY15.

Based on the recent "Third report on the Funding and Financing of the Aged Care Sector" released by the Aged Care Financing Authority (ACFA), the average EBITDA per resident per annum in Australia was \$9,224. Of particular relevance, the top quartile achieved an average EBITDA of \$21,889 per bed per annum. As indicated below, when statutory EBITDA per bed per annum results are adjusted for one off and extraordinary items, there should be additional performance upside for the listed entities.

## FY2015 EBITDA PER BED PER ANNUM (ADJUSTED)



\* Based on Statutory EBITDA adjusted for one off and extraordinary items and weighted annual bed numbers

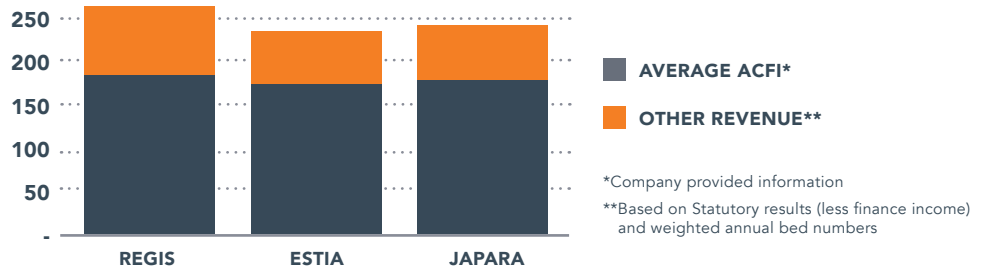
\*\* Based on the ACFA "Third report on the Funding and Financing of the Aged Care Industry"



# OPERATIONAL PERFORMANCE

Provided below are comparative 2015 total ACFI and other revenues. Revenue is a reflection of ACFI management and resident profiles, which drives other aspects of operational performance, including staff costs.

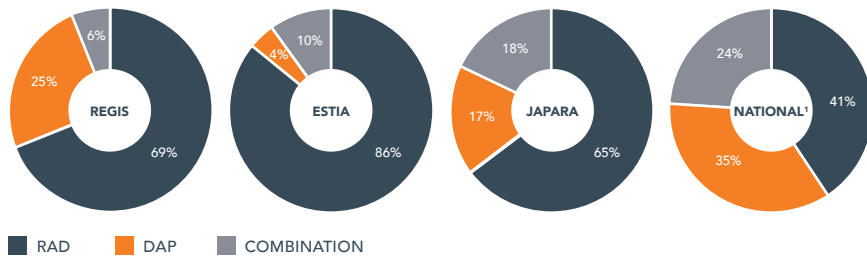
## FY2015 REVENUE PER BED PER DAY



As evident above, ACFI subsidy revenue is relatively consistent across the three listed providers. The main differentiating factor for revenue is the additional forms of revenue received.

Regis and Japara have a higher proportion of residents paying Daily Accommodation Payments (DAP) and combination payments of part Refundable Accommodation Payments (RAD) and part DAP, which favourably impacts operating results.

## INCOMING RESIDENT PAYMENT PREFERENCE AT 30 JUNE 2015



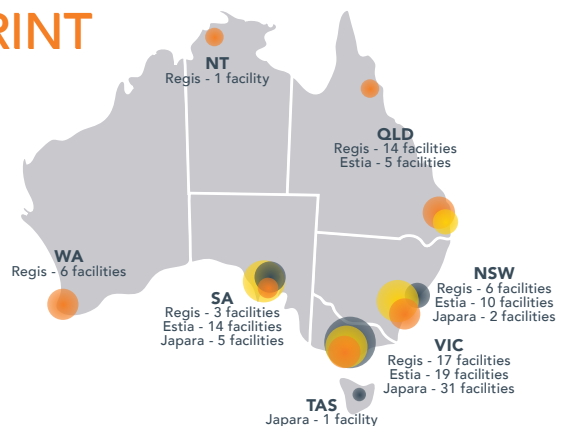
1. Based on the 2015 third report on the funding and financing of the aged care industry released by ACFA

A higher portion of supported residents can also drive additional operational revenue. Japara and Regis report that supported residents make up 34.7 per cent and 21 per cent, respectively, of total residents. Nationwide, the proportion of supported residents (excluding extra service) was 42.7 per cent at 30 June 2014.

Estia have not reported on supported resident ratios, however with all companies significantly investing in brownfield and greenfield development, it is evident there is a push to receive the higher accommodation supplement. Regis report that more than 50% of their supported residents now receive the higher accommodation supplement which is driving the higher revenue levels.

## NATIONAL FOOTPRINT

Geographically there is trend among the listed companies, with Victoria, New South Wales and South Australia being the key operational states. Regis is the only company to have operations in every other state (except Tasmania).



# FUTURE DIRECTION

It is clear that the listed aged care providers have had a year of significant portfolio growth. The three companies have strategies in place to continue this rapid growth via acquisition, brownfield and greenfield development. Estia has a particularly aggressive growth strategy in place, with the aim of acquiring 500 to 1,000 beds per year through single site acquisitions.

With a number of mergers and acquisitions taking place in recent times, the industry is becoming less fragmented. However, with larger providers still looking to expand and, with less homes becoming available to acquire, the market is getting very heated.

In this environment, more providers are turning to greenfield developments to realise their expansion targets. Low interest rates and deregulating funding models are improving development incentives for providers.

We expect the next year to produce a huge spike in developments across the country and this will create competitive pressure on existing homes that do not meet consumer expectations. This will be the subject of our next industry report in November 2015.

This is proving to be a very exciting time to be in aged care!

FOR FURTHER INFORMATION,  
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## About "In a Nutshell"

To help busy executives in a rapidly changing aged care world, Ansell Strategic provides summaries and high level commentary on new developments in the industry. Detailed reports are provided on our website at [www.ansellstrategic.com.au](http://www.ansellstrategic.com.au)