

**Chairman's address  
Annual General Meeting 2016  
Estia Health Limited (EHE)**

Patrick Grier, Chairman  
Wednesday 23 November 2016

The past twelve months have presented several challenges to the Estia Health business which I will cover in some detail shortly. However, I will first briefly summarise our results for the year.

### **FY2016 Results**

Our revenue for the FY16 year was \$446.5 million, which represented an increase on the previous year of approximately 50 per cent. This growth in revenue was driven by the acquisition of aged care facilities, both on a portfolio and single facility basis, together with the optimisation of revenues from our existing facilities.

We reported Earnings Before Interest, Tax, Depreciation and Amortisation of \$92.7 million on an underlying basis, which was about 30 per cent above what was reported in the previous year. On a statutory basis, EBITDA was \$66.6 million. In each case these results represented substantial increases over the prior year.

Estia Health is a substantial business. We now operate 69 homes located across four states of Australia – Victoria, South Australia, New South Wales and Queensland. These homes are organised into 11 networks across these four states to assist in achieving operational efficiency.

Your company has more than 7,000 employees and at any one time provides high quality care for about 5,500 residents in our homes. This makes Estia Health one of the nation's leading participants in our aged care sector.

During the 2016 financial year, your company earned a statutory net profit after tax of \$27.6 million. This enabled your directors to declare a final dividend of 12.8 cents per share, fully franked, which was paid to shareholders on November 7. The full year dividend of 25.6 cents per share was 90 per cent of Underlying Net Profit after Tax.

## **Achievements in the year to June 2016**

As I have highlighted earlier, your Company achieved substantial improvements in earnings during 2016 and a major contributor to this growth was the acquisition of additional aged care homes, together with the integration of those homes.

In February 2016, we acquired the Kennedy Health Care Group, adding 959 operational places. The Kennedy portfolio also presents some exciting opportunities in terms of greenfield and brownfield development for the future.

We also added 822 operational places through 13 individual site acquisitions.

These acquisitions brought the total number of acquired places to 2,178 since our ASX listing in December 2014.

Much progress has been made in integrating and optimising the operation of our portfolio. For example, we have employed extensive and sophisticated management, reporting, operational and care systems throughout the business. However, there is more work to do in this area in terms of optimising efficiency, improving integration and reducing the cost of doing business. I can assure you that we are well progressed in this area and look at this challenge as presenting additional opportunities for achieving earnings growth.

Your Board has resolved to focus on achieving the best possible results from our existing portfolio in the foreseeable future. There is unlikely to be any significant acquisition activity while we focus on accessing the improvements in operating performance that are present within the current portfolio. Our Chief Executive, Norah Barlow, will shortly discuss this in her presentation

## **Business Challenges**

Despite the financial performance in the 2016 financial year that I referred to previously, during that period and since the June 30 balance date Estia Health experienced several challenges. We acknowledge that the business has not performed to expectations; the results achieved have fallen short and we were unable to achieve the guidance previously given. This has been a tremendous disappointment to the Board and I can assure you that your Directors are very unhappy about the impact this has had on shareholder value.

I would however, also note that some matters that have adversely affected the Company have been outside of our control since we listed in December 2014.

There have been multiple changes in the way the aged care sector is funded by the Federal Government during this period. The rate and complexity of these changes has certainly been of considerable surprise to all the operators in the aged care sector. You will have seen that the stock market trading performance of all three listed aged care operators has been extremely volatile, particularly during 2016.

Your Board has acted swiftly to address a range of important issues in the business. Since the release of our annual results towards the end of August 2016, there have been several changes in management.

Our previous CEO and CFO left the company and we appointed a new CEO, as well as a new COO. We also appointed an interim Chief Financial Officer and a search is underway to fill that role permanently.

We also conducted a review of the earnings guidance given at the time of the release of our 2016 annual results. This unfortunately resulted in the release of a revised, lower guidance for the 2017 financial year. This was issued to the market on October 6 and I'm able to reconfirm that guidance today.

We also initiated a Strategic and Operational Review, led by our new CEO. This is well progressed, but I emphasise, not completed as yet. An update will be discussed by Norah during her presentation.

## **Management appointments**

I'd now like to talk further about the management appointments that we recently made.

As I've already mentioned, the Board appointed independent director Mrs Norah Barlow as interim Chief Executive Officer. Through discussions with her we were delighted that she was prepared to commit to the Chief Executive's role on a permanent basis. Given your Board's view that Norah is very well credentialed with a track record of success in this sector, we have confirmed her appointment for a 3-year term and an appropriate release about the terms of her contract has been lodged with the ASX.

Norah has deep experience in the aged care and retirement living sector. Norah was formerly CEO and a director of ASX/NZX-listed Summerset Group, one of the best performing and most highly regarded companies in the aged care sector in Australasia.

We were also delighted with the appointment of Ian Thorley as Chief Operating Officer. Ian started with us during October. He is a highly experienced senior executive with a distinguished career and more than 30 years' experience in hospital and aged care management. He has previously served as Chief Operating Officer at Opal Aged care, another leading aged care operator of similar size to Estia Health. We welcome Ian to our senior management team.

## **Board appointments**

I would now like to touch on the Board appointments made during the year. In February, Dr Gary Weiss and Mr Paul Foster were appointed and brought with them a considerable range of skills and experience.

Gary brings fresh perspectives to Estia Health's strategy and operations. He has deep skills in corporate governance and financial reporting (including roles as Chairman, Deputy Chairman and a director of APRA-regulated entities) and brings a wealth of experience obtained through a variety of executive and non-executive roles, including his position as the former Chairman of Kennedy Health Care.

Gary carries a proven track record in creating value across a variety of highly regulated sectors, particularly financial services, through roles at Tyndall Australia Limited, Tower Australia Limited and ClearView Wealth Limited.

Paul also brings a wealth of highly relevant experience for his role as a director of Estia Health. He has more than 20 years' experience in the investment industry, including specific experience in the real estate and health care sectors. Paul was associated with the Opal Aged Care business for five years where he was Chairman of that business through a long period of growth and development.

Board vacancies have been created by the departures of Mr Peter Arvanitis in August and Mr Marcus Darville in September. We expect to make new appointments to your Board in due course.

## **Our purpose**

A core commitment of Estia Health is to deliver the highest quality aged care services to our residents and to operate the best homes with the best staff.

This platform will allow us to develop a level of aged care homes and services that meets both the growing demand and complexity of care while underpinning our expansion for decades to come. To that extent, we have entered a period of organic growth and brownfield expansion and your Board and management will be working hard to ensure a continuous focus on asset performance.

At Estia Health, everything we do is guided by our purpose to be one Estia family. We aim to deliver the highest quality aged care for residents and their families in supportive and trusted environments. In doing so, we are building a business which is sustainable and successful over the long term. The Board believes that so long as we remain true to this purpose, our Company will always be in good shape and well positioned to build shareholder value.

## **Sector Growth**

The Directors believe that the demand drivers for residential aged care provide Estia Health with an immense opportunity. The Aged Care Financing Authority estimates that the residential aged care sector will need to build approximately 76,000 additional places over the next decade, compared with less than 35,000 new places that were delivered over the previous decade.

There is an enormous amount of growth required in the sector and we are seeking to best position Estia Health to be a part of this.

Refurbishments and brownfield development is a mechanism that we have for meeting the increasing demand for aged care services in Australia.

I would also note that the market continues to be buoyed by a low interest rate environment that continues to fuel growth in residential property prices which underpins growth in the prices of residential aged care accommodation. This is reflected in the recent growth in RAD prices across the business of 5.6% for the FY16 financial year.

To that end, every effort is being made to identify measures to optimise the business and enable it to provide best practice outcomes for residents and optimal returns for shareholders.

This of course requires Government leadership as well, and Estia Health will play a leading role in working closely with government as it implements its *Living Longer, Living Better* reforms. We will also work with other stakeholders to assist in driving sector development and ensuring the highest standards of quality care.

## **Conclusion**

We are committed to providing uncompromising quality and care to our residents through the expertise of our excellent staff and to maximising shareholder value. We are also committed to the highest standards of corporate, ethical and social governance, crucial in a sector that provides such an important service to older Australians.

In closing, I would like to thank my Directors, the Executive team and all our people for their hard work and tireless dedication to providing exceptional care for our residents and their families.

And finally, I would like to thank you, our shareholders, for your continuing patience and support of the Company. We acknowledge that this has been a difficult period.