



Norah Barlow, Chief Executive Officer & Managing Director

ANNUAL GENERAL MEETING 2016

Estia Health Limited (EHE)

**Melbourne, Australia
Wednesday 23 November 2016**

Photo: Golden Grove, South Australia

EXECUTIVE TEAM

- **Steven Boggiano** – Acting Chief Financial Officer
- **Ian Thorley** – Chief Operating Officer
- **Mark Brandon** – Chief Policy & Regulatory Officer
- **Kate Sellick** – People and Communications Director
- **Mary Burke** – Quality Director
- **Peter Hamilton** – Development Director
- **Mark Kennedy** – Development Director

FY16 FINANCIAL RESULTS

\$442.8m

REVENUE¹

Up 55% on FY15 of \$284.8m

\$66.6m

STATUTORY EBITDA¹

Up 116% on FY15 of \$30.9m

\$27.6m

STATUTORY NPAT¹

Compared with FY15 of (\$22.5m)

\$61.1m

NET OPERATING CASH FLOW¹

Up 168% on FY15 of \$22.8m

\$76.4m

NET RAD RECEIPTS

Down 9% on FY15 of \$84.1m

12.8c

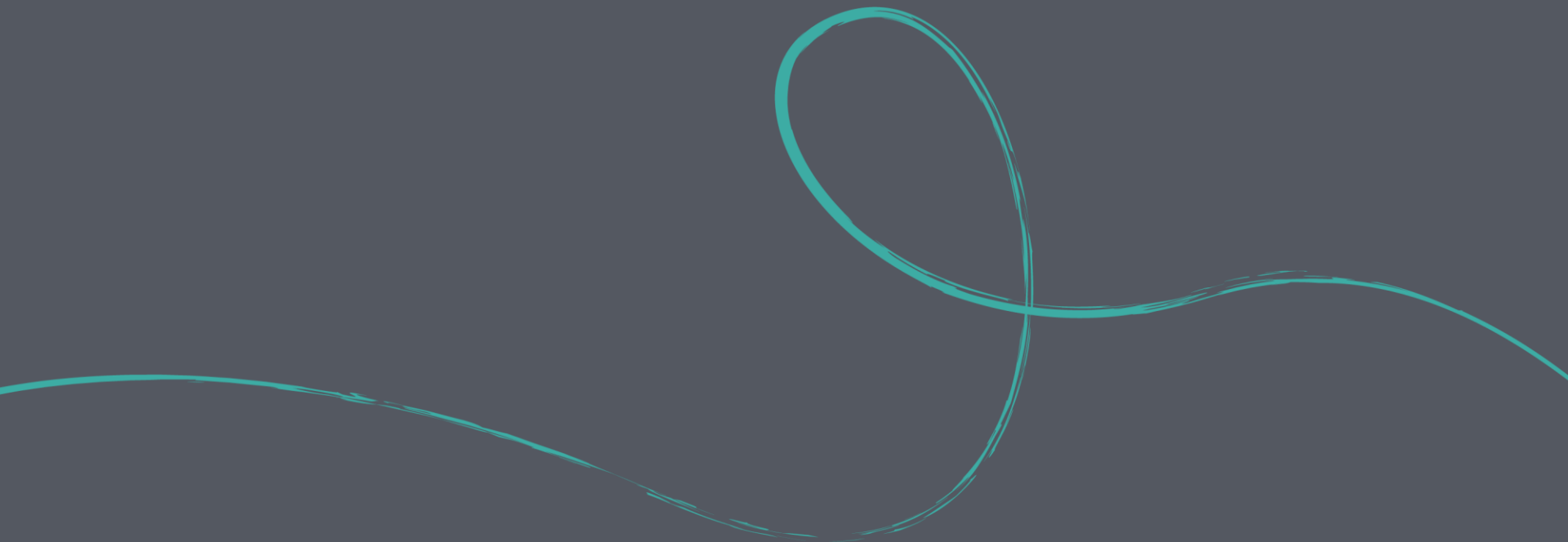
**FINAL DIVIDEND PER SHARE
(FULLY FRANKED)**

Taking annual dividend to 25.6 cents



1. Based on Statutory Actual results. Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") and Net Operating Cash Flow are adjusted for the reclassification of \$1.0m bond/RAD refund interest from other operating costs to net interest. Revenue excludes \$3.7m of other income.

Operational update



OPERATING PERFORMANCE

Key operating and financial metrics on track to 31 October 2016

Key metrics	FY17 (YTD) ¹	FY16	% change
Number of homes	69 ²	69	-
Total operational places	5,914 ²	5,782	2.3% ▲
Average occupancy	93.1%	94.4%	1.3% ▼
Government revenue / occupied bed day	\$194	\$191	1.6% ▲
Other revenue / occupied bed day ³	\$67	\$67	-
Staff costs as % of total revenue	63%	61%	3.3% ▲
EBITDA	\$28.5m	\$92.7m	N/A
Average incoming RAD price	\$371,500	\$362,800	2.4% ▲
Net RAD inflows	\$20.7m ⁴	\$76.4m	N/A



1. FY17 YTD reflects unaudited metrics across the period from 1 July 2016 to 31 October 2016.
2. As at 31 October 2016.
3. Excludes income relating to gains on acquisitions or disposals of assets.
4. Total net inflows between 1 July 2016 and 31 October 2016.

CARE, QUALITY & COMPLIANCE

Estia is committed to excellence in quality of care and compliance at all times

- **Estia is focused on and committed to providing high quality care to our 5,500 residents**
 - Every home is under the leadership of an Executive Director and Care Director supported by a team of registered nurses
 - Systems and audit processes are in place to support quality and compliance throughout the portfolio
 - 18 homes re-accredited over the last 12 months
 - Restructure of quality and operations teams to strengthen local and national support
- **Compliance issues being proactively resolved**
 - All homes are accredited
 - Identified non-compliance has been addressed
 - Estia has taken immediate action to ensure all areas are addressed within the required timetable for improvement



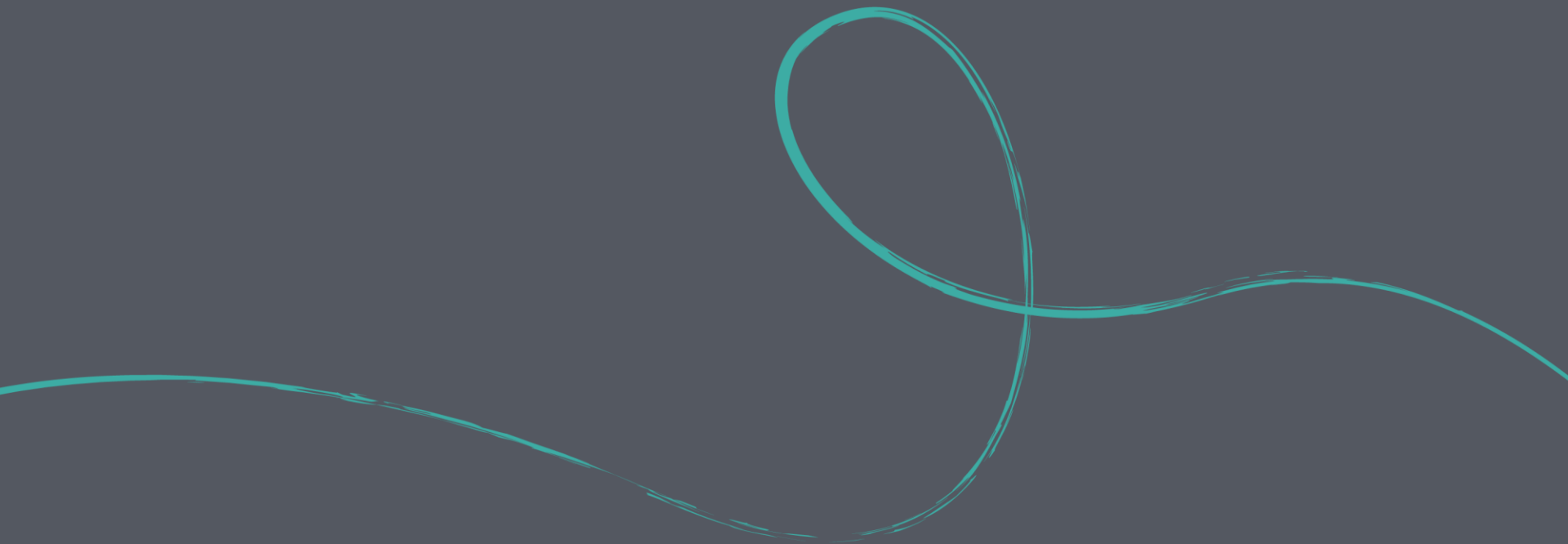
STAFF INITIATIVES

Estia has adopted a range of initiatives designed to enhance the workplace experience for its staff

- **Graduate Nurse Internship program**
 - Structured graduate training program to attract and develop next generation leaders
 - Recruitment for 2017 program underway, with 40 placements (applications close in December)
- **Network Ambassadors**
 - Talent development program to share top talent and best practice across homes
 - Currently 119 active network ambassadors
- **Happy Days engagement program**
 - Fostering deep and genuine connections between employees and residents
- **Safe workplaces**
 - Initiatives to prevent injury and keep our people safe
 - Reduce costs through lower levels of absenteeism and WorkCover claims



Strategic and operational review



STRATEGIC AND OPERATIONAL REVIEW

Strategic and operational review remains ongoing but progressing well

- Estia announced a strategic and operational review on Thursday, 6th October 2016
- The review to date has identified a number of areas of focus which are outlined further in this presentation
- These focus areas present clear opportunities to build on what is already a profitable company, and provide opportunities for increased profitability over the coming years
- **Key focus areas include:**
 - Management structure
 - Operational efficiencies
 - Business and operating system optimisation
 - Procurement process improvements
 - Earnings initiatives
 - Impact of Government funding cuts
 - Additional services opportunities
 - Growth strategy
 - Acquisition integration
 - Brownfield and greenfield development
 - Significant refurbishment opportunities
 - Non-core asset identification and disposal
 - Optimisation of capital structure



MANAGEMENT & OPERATIONAL STRUCTURE

Leadership regeneration and management structure transition underway

- **Executive leadership team largely finalised**
 - CEO and COO appointed
 - Search for permanent CFO has commenced
- **Enhanced management structure to maximise efficiencies and improve home level accountability and performance**
 - New structure to drive alignment of accountability, operational focus and role clarity
 - Greater emphasis on home level reporting and P&L/financial performance
 - Focus on whole of business standardisation
 - Key business priorities developed at corporate level and executed at local level
 - Incentive structures to be reviewed to ensure optimal alignment with desired performance outcomes



MANAGEMENT & OPERATIONAL STRUCTURE

Leadership regeneration and management structure transition underway

- **Operational management and quality review has been completed**
 - Led by Ian Thorley - appointed as COO in October 2016
 - Shift to regional managers with responsibility for budget, quality, staff/culture and occupancy
 - Strengthened local support through dedicated specialist roles – quality, clinical education, human resources and client relations
 - Reorganisation of reporting lines to ensure appropriate staffing levels and focus on marketing and sales



OPERATIONAL EFFICIENCIES

Estia has performed a detailed review of its operating systems and procurement practices

- **Business and operating system optimisation**

- Market standard business systems have been fully deployed across the portfolio, including (but not limited to):
 - Epicor
 - Healthmetrics
 - Time Target
 - ARM Procurement
 - ELMO (online training)
 - Injury Connect and Safety Max (WHS)
- A review of systems has revealed opportunity for optimisation

- **Procurement process improvements**

- Renegotiation of significant contracts
- Rationalising product lines and supplier base
- Improving inventory management within homes
- Ensuring compliance to group preferred supplier arrangements



EARNINGS INITIATIVES

A range of measures are being adopted to enhance earnings

- **Impact of Government funding cuts**

- Changes to Government funding will increasingly impact the business over coming years, particularly in relation to complex health care funding and ACFI indexation
 - Impact more significant in FY18 and FY19
- The management team is implementing a range of strategies to mitigate the impact on both care and revenues
 - Increased significant refurbishment activity
 - Additional services
 - Maximising occupancy
 - Ensuring ACFI claims align with resident needs
 - Government advocacy
- The Department of Health released a statement regarding permitted additional charges under the Aged Care Act
 - Estia has ceased charging the Asset Replacement Charge in response to the Department's advice

- **Additional services**

- Estia has a range of additional service offerings based upon resident demand and availability
- Currently optimising additional services offering introducing a standardised approach across homes and ensuring appropriate market-based pricing

ACQUISITIONS

Significant acquisitions in FY16

- **Acquisition of 1,920 places completed in FY16**
 - Integration of Kennedy acquisition near complete
 - All FY16 single site acquisitions fully integrated
 - All prior year acquisitions integrated and operational
- **No remaining acquisition consideration payments post October 2016**
- **Future acquisition opportunities to be assessed on their merits, however, no further acquisitions anticipated in the short to medium term**



Photo: Bexley Park, New South Wales



Photo: Kilbride, New South Wales

DEVELOPMENT SUMMARY

Current development pipeline is progressing according to plan

- **Brownfield development**
 - 330 new places (net 108) opened in FY17 YTD
 - FY17 capex of \$3m – \$4m
- **Greenfield development**
 - 186 new places (net 123) due to open in FY18
 - FY17 capex of \$35m – \$40m
- **Construction of a further 718 new places (net 546) anticipated to commence from FY18**



DEVELOPMENT PIPELINE

Estia has opened five facilities YTD and commenced construction of a further 186 new places

Development	State	Type	Land owned	Development approval	Licenses held	Total new places built	Net new places	Single bed rooms	Additional services	Construction start	Construction completion	First resident expected
Epping	NSW	Brownfield	Yes	Yes	Yes	2	2	100%	Yes		Jun-16	Jul-16
Gold Coast	QLD	Brownfield	Yes	Yes	Yes	84	56	100%	Yes		Jun-16	Jul-16
Encounter Bay	SA	Brownfield	Yes	Yes	Yes	66	2	100%	Yes		Jul-16	Jul-16
Tea Gardens	NSW	Brownfield	Yes	Yes	Yes	106	36	100%	Yes		Jul-16	Jul-16
Kadina	SA	Brownfield	Yes	Yes	Yes	72	12	77%	Yes		Sep-16	Sep-16
Completed						330	108	95%				
Twin Waters	QLD	Greenfield	Yes	Yes	Yes	114	114	100%	Yes	Feb-16	FY18	Q1 FY18
Kogarah	NSW	Greenfield	Yes	Yes	Yes	72	9	97%	Yes	May-16	FY18	Q1 FY18
Underway						186	123	99%				

DEVELOPMENT PIPELINE

Further pipeline of 718 new potential places with construction commencement anticipated post FY18

Development	State	Type	Land owned	Development approval	Licenses held	Total new places built	Net new places	Single bed rooms	Additional services	Construction start	Construction completion	First resident expected
Southport	QLD	Brownfield	Yes	DA submitted	72	111	51	100%	Yes	FY18	FY19	FY19
St Ives	NSW	Greenfield	Yes	DA submitted	0	120	120	100%	Yes	FY18	FY19	FY19
Sunshine Cove	QLD	Greenfield	Yes	DA approved	8	108	108	100%	Yes	FY19	FY20	FY20
Ryde	NSW	Brownfield	Yes	DA submitted	40	58	18	100%	Yes	FY19	FY20	FY20
DA approved or submitted						397	297	100%				
Blakehurst	NSW	Brownfield	Yes	DA not submitted	72	108	36	100%	Yes	FY18+	FY20+	FY20+
Wollongong	NSW	Greenfield	Yes	DA not submitted	0	108	108	100%	Yes	FY19+	FY20+	FY20+
Wombarra	NSW	Greenfield	Yes	DA not submitted	0	105	105	100%	Yes	FY19+	FY21+	FY21+
No formal decision to proceed						321	249	100%				
Total projects not yet commenced						718	546	100%				
Total projects not completed						904	669	99%				

SIGNIFICANT REFURBISHMENT OPPORTUNITIES

Increasing focus on significant refurbishment opportunities

- Program to provide enhanced accommodation and living environment to residents and receive a higher supplement
- **Six significant refurbishment projects representing 326 concessional places complete**
 - 4 homes now receiving significant refurbishment subsidies
 - 2 further applications submitted on completed homes
 - Delivers approximately \$2m of annual EBITDA on a stabilised basis
- **A further six “Phase 1” homes identified as eligible for significant refurbishment**
 - Phase 1 homes to be refurbished by FY18 for estimated capex of ~\$9m
 - Expected to generate additional annual EBITDA of \$2m on a stabilised basis
- **Process of identification and execution of “Phase 2” opportunities underway**
 - Expectation that a further 16 homes representing ~700 places may be eligible

Home	State	Status
Bexley Park	NSW	Receiving subsidy
Craigmore	SA	Receiving subsidy
Gold Coast	QLD	Receiving subsidy
Kadina	SA	Receiving subsidy
Encounter Bay	SA	Completed and application submitted
Mudgeeraba	QLD	Completed and application submitted
Burton	SA	Phase 1 (underway)
Melton South	VIC	Phase 1 (yet to commence)
Dandenong	VIC	Phase 1 (yet to commence)
Mt Coolum	QLD	Phase 1 (yet to commence)
Salisbury	SA	Phase 1 (yet to commence)
Tuncurry	NSW	Phase 1 (yet to commence)
16 additional facilities		Phase 2

ASSET PORTFOLIO REVIEW

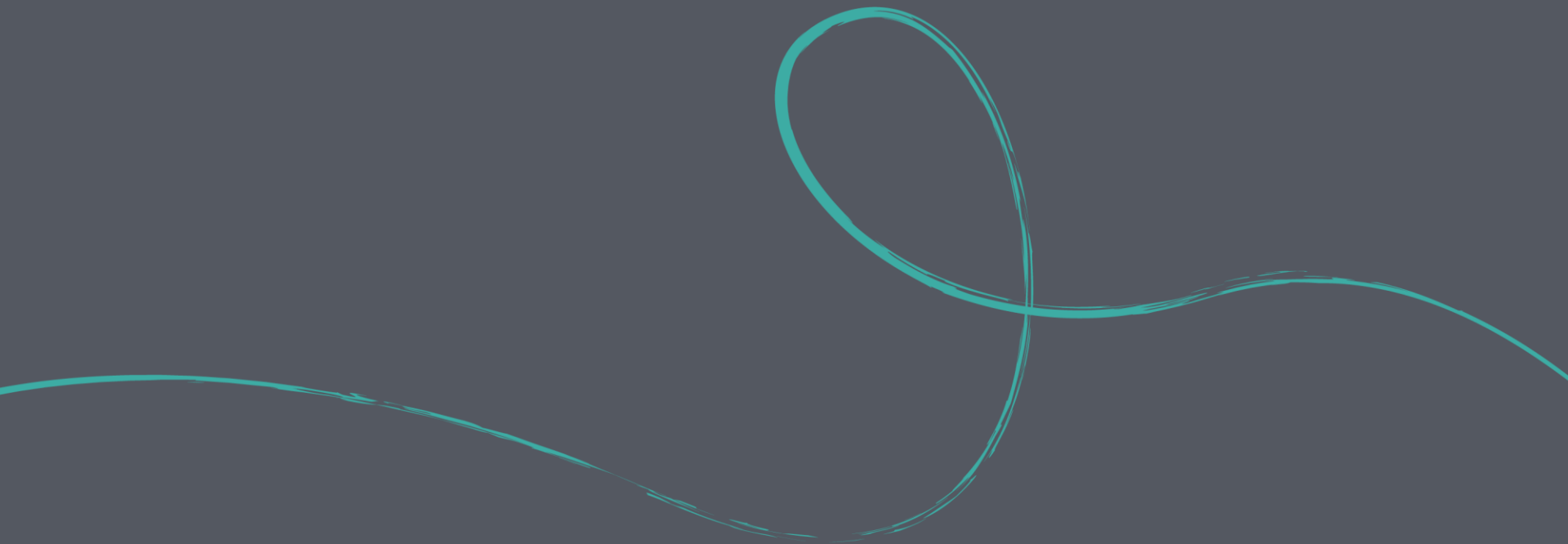
A comprehensive review of Estia's portfolio continues

- Objective is to identify any assets that are surplus to ongoing strategic needs
- Assessment of assets will be ongoing and will be made having regard to a number of factors including:
 - Strategic nature of the asset
 - Current or potential future value
- Notwithstanding this, Estia owns and operates a portfolio of highly profitable homes and strategic real estate assets



Manly Vale, New South Wales

Leverage and liquidity



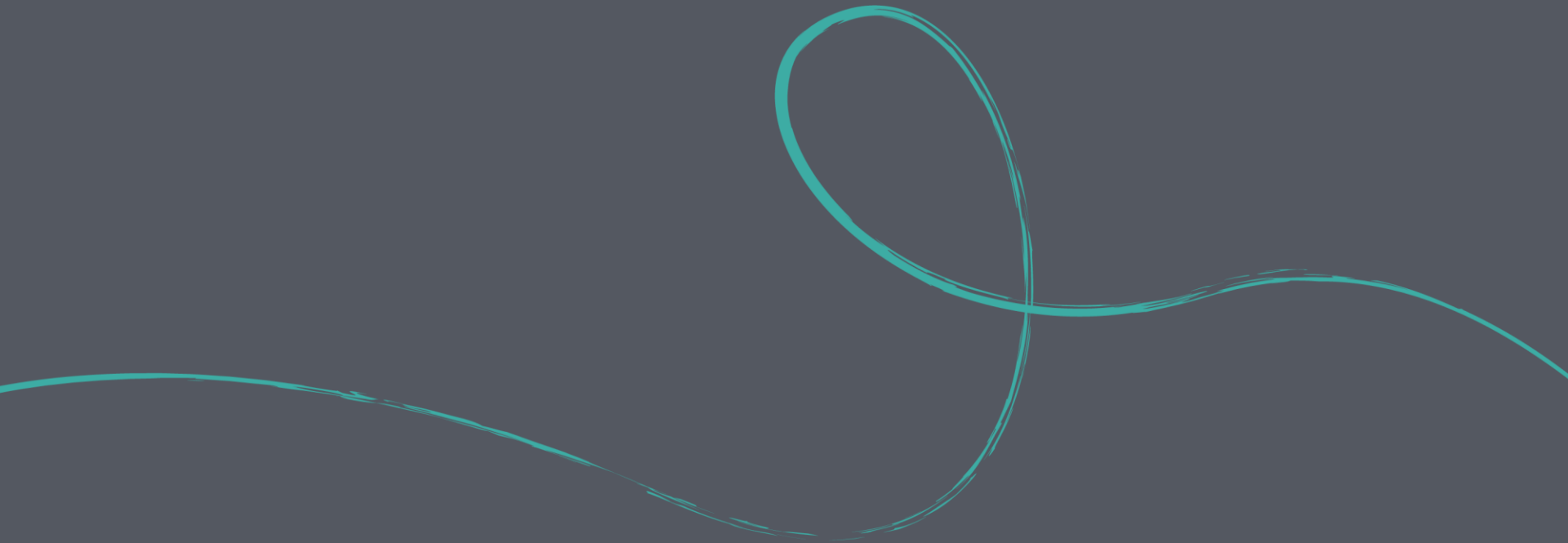
LEVERAGE AND LIQUIDITY

Estia remains comfortably within its debt covenants with headroom of 1.40x

- Core net leverage ratio at 31 October 2016 of 2.10x^{1,2} within covenant ratio of 3.50x
- Interest coverage ratio of 11.28x^{1,3}
- **Net debt position of \$254.7m as at 31 October 2016**
 - Drawn debt of \$286.5m
 - Approximately \$70.0m is attributable to development which is expected to be paid down via RAD inflows
 - Core debt of \$216.6m
 - Cash of \$31.8m
 - Core net debt position of approximately \$184.8m²
- **All acquisition consideration now paid**
- **Objective to reduce core debt over medium term**
 1. As at 31 October 2016 and based on mid point of FY17 guidance range (EBITDA: \$86m – \$90m)
 2. Core net debt refers to total debt less development debt less cash
 3. Estimated based on total drawn debt of \$286.5m as at 31 October 2016 and a weighted average cost of debt of 3.18%
 4. \$3.6m is currently used for bank guarantees for rental properties
 5. Net Leverage Ratio (Covenant) is calculated per Estia's Syndicated Facility Agreement

Debt facility (\$m)	30 Jun 16	31 Oct 16
Available	330.0	330.0
Undrawn	76.5 ⁴	43.5 ⁴
Drawdown	253.5	286.5
<i>Core debt³</i>	<i>183.6</i>	<i>216.6</i>
<i>Development debt</i>	<i>70.0</i>	<i>70.0</i>
Cash	29.8	31.8
Net debt	223.7	254.7
Acquisition payable (non interest bearing)	84.5	-
Net leverage ratios	30 Jun 16	31 Oct 16 ¹
Net leverage (total)	2.41x	2.89x
<i>Net leverage (covenant calculation)⁵</i>	<i>1.66x</i>	<i>2.10x</i>
Net leverage (covenant limit)	3.50x	3.50x
Net leverage (covenant headroom)	1.84x	1.40x
Interest coverage ratios	30 Jun 16	31 Oct 16 ¹
Interest coverage	12.88x	11.28x
Interest coverage (covenant limit)	3.00x	3.00x
Interest coverage (headroom)	9.88x	8.28x

FY17 outlook



OUTLOOK

FY17 tracking to expectations

- **Significant future growth thematic underpinning the sector**
 - 76,000 new places over the next decade compared with less than 35,000 delivered over the previous decade¹
- **Estia remains well positioned with considerable opportunities for further optimisation and growth**
 - Highly experienced and capable new senior management team
 - Focus on structural and system improvements, quality initiatives and optimisation of strategic assets
 - Increased focus on significant refurbishment and additional services
 - Organic growth driven by greenfield and brownfield development
- **Strategic and operational review continues to consider a range of alternatives in relation to Estia's leverage**
 - Review to be finalised by 31 December 2016
 - Estia remains comfortably within its debt covenants with headroom of 1.40x at 31 October 2016²
- **Guidance for FY17 underlying EBITDA of \$86m-\$90m re-confirmed**
 - FY17 YTD EBITDA of \$28.5m



1. Source Aged Care Financing Authority | Annual Report on the Funding and Financing of the Aged Care Sector – July 2016
2. Based on mid point of FY17 guidance range (EBITDA: \$86m-\$90m)

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Estia Health

Photo: Golden Grove, South Australia