

JAPARA HEALTHCARE LIMITED 2018 AGM CHAIRMAN'S ADDRESS – LINDA BARDO NICHOLLS AO

31 OCTOBER 2018

Once again thank you all for being with us today.

Japara found FY2018 a challenging year with earnings impacted by occupancy pressures associated with the unusually severe influenza outbreak experienced during the first half. Government funding cuts which included the absence of ACFI indexation were also an important factor.

As you our shareholders are aware, aged care is quite appropriately and understandably a labour-intensive business and we employ over 5,400 staff caring for nearly 4,000 residents across our 48 homes. Approximately 69% of our revenue is spent on employee salaries and costs. This increased by 5% during the year and along with increases in amounts spent on resident care and accommodation, contributed to a 22% reduction in profit for the year of \$23.3 million.

The Company's stated dividend policy is to pay full year dividends of up to 100% of profit, franked to the maximum extent possible having regard to available franking credits. Your Board declared 7.75 cents per share in dividends for the year. This was less than in the previous year having regard to the lower profit, non-cash gains and our on-going significant investment in growth of the business through our development program.

At Japara, we strive to provide excellent care and services to our residents based on a respectful and individualised approach. This philosophy is at the heart of our high care model. Our residents need high care—around 80% have some form of cognitive impairment and over 85% are incontinent.

During the year, we continued to invest in our homes and our people which was reflected in our maintaining our 100% accreditation record as an approved provider of residential aged care services. We would accept nothing less.

Excellent progress was also made on our development program.

We opened 'Riverside Views', a wonderful new home located in Launceston, Tasmania. We also completed an extension and full refurbishment of our existing Noosa home. This home now has a ten room specialist dementia house with an international best practice design. I am pleased to report that this and other wellness initiatives are achieving successful resident outcomes across the Group, leading to a greater quality of life for our residents living with advanced dementia.

Our most recent new home, The Highbury, located in Glen Waverley, Victoria was also well received when opened earlier this month. We will be shortly opening a further two homes, one in Rye, Victoria and one in Brighton-Le-Sands, New South Wales, adding another 160 new beds to our portfolio.

Another highlight for the year was the expansion of our Sydney region portfolio through acquisition of four operating homes, bed licences and vacant land from Riviera Health. These assets were acquired at good value, with the homes being quickly and seamlessly upgraded into Japara's high care model. This included reconfiguring the homes by converting multiple bed wards into single rooms and improving resident amenity and living spaces.

Indeed, two of the homes were able to be fully re-accredited within a short period after we acquired them. Both homes had been sanctioned by the Department of Health before we purchased them. We acquired them knowing that we could fix the problems. We knew what had to be done and utilising our key people, knowledge and resources we were able to meet and resolve the Department of Health's concerns.

This is a great outcome all round and is testament to our respected high care model and the excellence and dedication of our people and those at the Department.

Moving on to the wider aged care sector, I have previously noted the understandable significant level of public scrutiny our industry has faced in recent years.

There are numerous Government reviews being undertaken examining standards of care, regulatory processes and operating practices. As you are no doubt aware, the Prime Minister has recently announced a Royal Commission into aged care. Japara welcomes this review, with the hope that it facilitates further reform to the sector that leads to better outcomes for all aged care residents now and in the future. We hope that the Royal Commission will also provide longer term policy certainty and sustainability for our important industry.

Japara contributed to the terms of reference for the Commission which are broad and call for an interim report to be delivered by 31 October next year and a final report by 30 April 2020. Your Board will seek to keep you apprised of any major developments, including Japara's involvement with the Commission.

Caring for the aged is a central to a good community and a good society. While we believe we meet community expectations of care, the announcement of the Royal Commission has had a negative impact on current investor sentiment for the sector, as reflected in our lower share price.

The best thing we can do and will do is to continue to deliver our focused development program to meet the growing future demand for residential aged care services. Our CEO will briefly cover this program in his presentation.

I would like to conclude by acknowledging and thanking our exceptional team of nurses, carers, cooks, cleaners and other staff for their on-going dedication and commitment to our valued residents and Japara.

I would also like to acknowledge our management team and thank them for their efforts during the year in what has been and continues to be a challenging regulatory and operating environment.

I would also like to thank my fellow directors for your support and dedication during the year.

Finally, thank you to you, our shareholders, for your on-going support of Japara and high quality residential aged care within Australia. Your Board appreciates your attendance at today's meeting.

I'd now like to invite our CEO, Andrew Sudholz, to present. Thank you.

JAPARA HEALTHCARE LIMITED

2018 AGM CEO'S PRESENTATION – ANDREW SUDHOLZ

31 OCTOBER 2018

Thanks Linda and good afternoon everyone.

Today I will provide a brief review of our FY2018 operations. I will then talk about our business strategy, including our development program, followed by an update for FY2019.

Japara continues to develop and grow a sustainable company that supports elderly people in living. There are currently around 2,700 residential aged care homes providing care to more than 200,000 elderly people. Japara provides care to around 2% of these people. The number of residents requiring this level of care is projected to reach more than 288,000 over the next decade. In short, Australia will need another 88,000 plus new residential aged care places to be built and operated.

In this context we have grown and will continue to grow - delivering high quality care, accommodation and services to residents.

FY2018 operations summary

Japara made good progress on its strategy during the year, in what was a challenging operating environment for aged care providers. As mentioned by Linda, our total revenue of \$373.2 million was up 3% on FY2017 through contributions from development projects completed in the prior year and the Riviera Health homes we acquired on 1 April 2018.

Unfortunately, this revenue improvement was more than offset by the impact of wage increases. This was compounded by the absence of indexation on Federal Government care funding and a temporary drop in occupancy due to the unusually severe influenza outbreak experienced nationwide during the first half. As a result, earnings were weaker, with EBITDA of \$50.7 million for the year, being 15.8% down on the previous year.

While it was a tough FY2018, we continued to invest in the business during the year. \$108.2 million was spent on land and improving existing aged care homes and developing new homes. This activity was partly financed from our strong RAD cash flows, which totalled \$41.6 million. We utilised our debt facilities more extensively during the year with drawn debt totalling \$116.3 million at 30 June 2018. This comprised \$86 million of debt supporting our development program and \$30.3 million of core debt.

Our focus on the business ensured that nineteen of our homes were successfully reaccredited during the year, maintaining our 100% compliance record.

Occupancy also improved to around more historical levels by 30 June 2018.

We remain committed to our high care model, providing registered nurses on every shift at every one of our homes. Indeed, all our homes are managed by highly qualified and experienced nurses. This approach, along with our focus on individual resident needs, is reflected in our higher expenditure on labour costs relative to others.

It is an investment in ensuring our residents receive the level of care we believe is appropriate for people later in life.

Strategy

And not only is it the socially responsible thing to do – and despite the year being a tough year - we also believe it makes business sense. Our business strategy is in alignment with our important social responsibility.

And we achieve our business and social ends within the confines of Government funding and legislation.

Our strategy includes constructing state of the art homes for the 88,000 plus future residents who will require high care support, providing additional services that benefit the wellbeing of our residents and providing specialist care for the increasing number of Australians living with dementia.

We also believe the industry will further consolidate and opportunities for accretive acquisitions will exist, much like we did with the recent purchase of the Riviera Health portfolio in the Sydney market which included four operating homes.

The Riviera acquisition, along with our existing assets, provides a strong platform to establish a superior portfolio of new aged care homes in the Sydney region. It was also consistent with our strategy to grow through selective acquisitions that meet our strict criteria and provide identifiable improvement opportunities. We expect this acquisition to contribute around \$3.5 million in additional EBITDA to our business in FY2019.

Excellent progress continued to be made on our growth during the year with operational places increasing by 6%. Two projects were successfully delivered and a further three projects were nearing completion at year end and have subsequently been completed.

We had five brownfield and 12 greenfield projects in progress at year end. Our strong development program is expected to deliver more than 1,200 net new places by the end of FY2022, being a significant contribution towards meeting the projected growth needs for caring for elderly Australians. Our development program seeks to deliver approximately 300 beds each year on a consistent basis. This should provide a consistent increase in earnings, allow us to commission new homes progressively and to keep peak development debt at prudent levels. We continually evaluate our development program with regard to a number of considerations including financial, operational and development capacity. We slightly extended our development timeframes during the year to better fit consistency on delivery and to the market environment.

In addition to our development program, we have a significant refurbishment program across a number of our existing homes. This program is another way we can deliver enhanced facilities for the benefit of our residents.

Royal Commission

Japara has always focused on high standards of care for our residents. We therefore welcome the Royal Commission into Aged Care and hope it brings changes to the sector that supports better outcomes for all aged care residents now and in the future, as well as providing long term sustainability for the industry.

FY2019 update

Now turning to the current financial year.

In August 2018, we provided an outlook for FY2019 that we expected EBITDA to be 5% to 10% up on FY2018, subject to no material changes in market or regulatory conditions.

With the recent announcement of the Royal Commission, it is anticipated there will be a financial impact on the business, the extent of which we will better understand over time. We will provide further update as required.

Conclusion

I would like to conclude by also acknowledging and thanking all of our terrific staff working in our 48 homes, particularly our Home Managers, and all our support office staff and the management team. The passion and commitment shown by our workforce and generally across the industry is exceptional.

Finally, I would like to thank you for your support and attendance today.

Thank you.

Japara Healthcare Limited
2018 Annual General Meeting
CEO's Presentation - Andrew Sudholz



FY2018 highlights

Good progress on strategy in a challenging operating environment



Total revenue
\$373.2m
Up 3.0% on FY2017



Care
100% accreditation
record maintained 19
re-accreditations during
FY2018



Capital expenditure
\$108.2m spent on land
and improvements



EBITDA
\$50.7m
Down 15.8% on FY2017 due to
occupancy pressure and the
absence of ACFI indexation



Occupancy
Underlying occupancy of
94.4% as at 30 June 2018



Net RAD inflows
\$41.6m



NPAT
\$23.3m
Down 21.5% on FY2017



Full year dividends
7.75cps
Interim: 4.0cps (franked to 65%)
Final: 3.75cps (franked to 50%)



Net debt
\$116.3m
\$30.3m core debt
\$86.0m development debt

FY2018 growth highlights

Significant development and acquisition activity in line with strategy, with operational places increasing by 6%



Greenfield developments

- Riverside Views completed in FY2018 (88 places)
- Another 220 new places (3 homes) recently completed – 2 now open: The Highbury and Brighton-Le-Sands



Brownfields developments

- 136 premium rooms delivered in the 18 months to 30 June 2018
- Another 56 rooms delivered in September 2018 and 55 in progress



The Highbury - Glen Waverley (VIC)



Significant refurbishment

- Six homes significantly refurbished in FY2018 with a further eight to complete in FY2019
- 21 homes currently qualifying for the maximum accommodation supplement



Acquisitions

- Riviera Health portfolio acquired and integrated (210 places plus 297 surplus licenses)
- Significantly increases presence in Sydney market
- \$3.5m+ EBITDA contribution in FY2019



Brighton-Le-Sands (NSW)

FY2019 update

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JAPARA

Better, in every Respect.