



FY2019 Half Year Results Presentation

25 February 2019

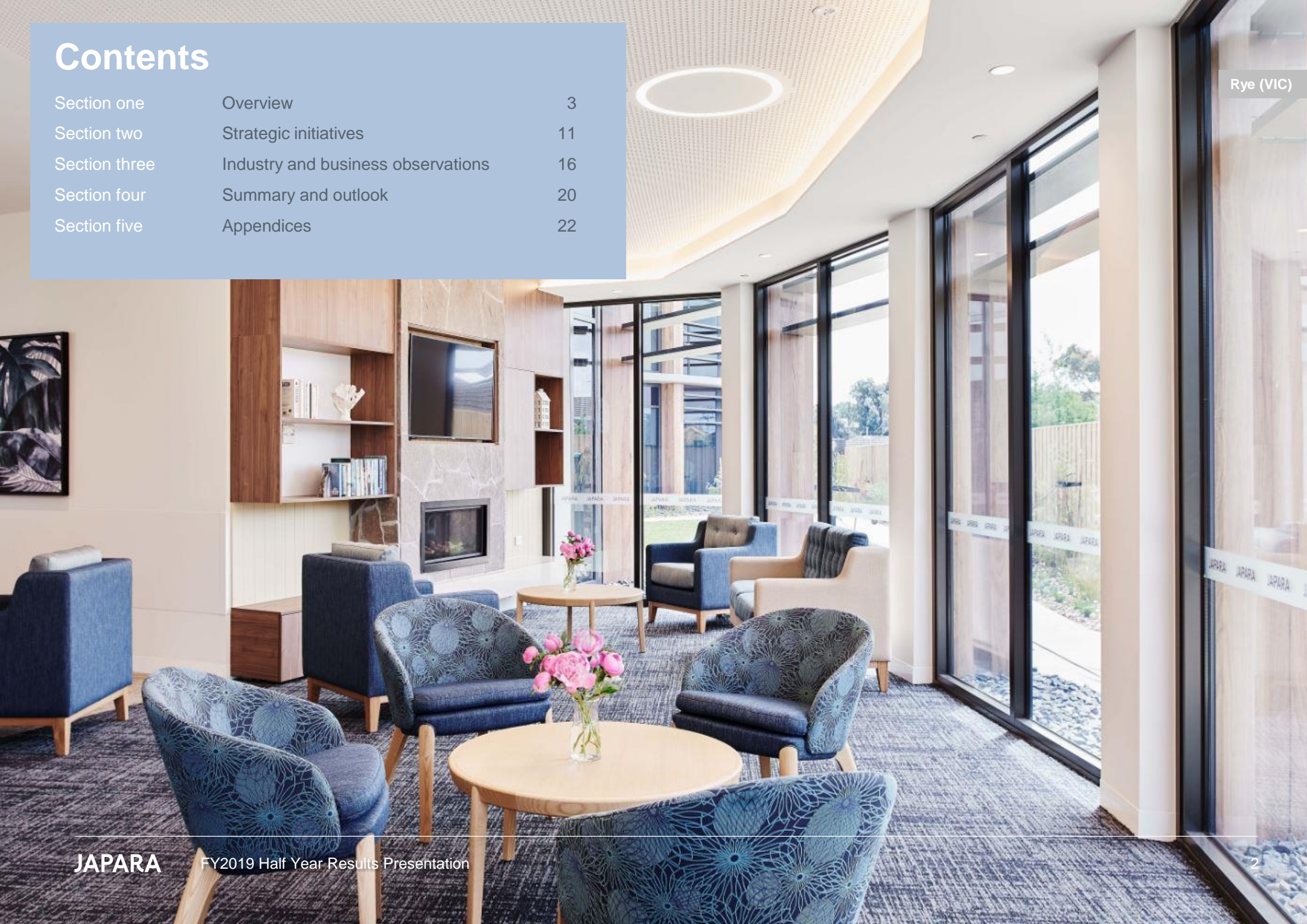
Andrew Sudholz
CEO & Managing Director

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Chief Financial Officer

Contents

Section one	Overview	3
Section two	Strategic initiatives	11
Section three	Industry and business observations	16
Section four	Summary and outlook	20
Section five	Appendices	22

Rye (VIC)



Section one

Overview

1H FY2019 highlights

Resilient performance in a challenging market



Total revenue

\$193.5m

Up 6.8% on 1H FY2018 due mainly to the Riviera Health acquisition



Care

100% accreditation record maintained with 10 re-accreditations during the period



Net RAD inflows

\$28.9m

In line with expectations



Occupancy

1H FY2019 average underlying occupancy of 93.6%



EBITDA

\$22.1m

Underlying 1H FY2019 EBITDA of \$23.8m slightly up on pcp with lower non-recurring gains in 1H FY2019



Developments

Over 300 new places added including three new homes

\$66.6m spent on land and improvements



NPAT

\$7.6m

Down 18.3% on 1H FY2018 due to lower property gains and increasing depreciation on developments in start-up phase



Interim dividend

2.80cps

(unfranked)



Net debt

\$131.9m net debt at 31 December 2018 with core net debt of \$36.4m and construction debt of \$95.5m

1. 1H FY2018 comparatives normalised for \$1.4m Capital Refurbishment Deduction (CRD) revenue adjustment

1H FY2019 growth highlights

Three greenfield and two brownfield developments completed and a new five year, \$345m syndicated loan facility secured



Greenfield developments

- Completion and opening of Glen Waverley (60 places), Rye (99 places) and Brighton-Le-Sands (61 places)
- Planning approvals recently received for a 104 place development in Belrose (Sydney) and 122 place development in Highton (Geelong)



Significant refurbishment

- Four homes significantly refurbished in 1H FY2019 with a further two to complete in FY2019 and five in FY2020
- 31 homes currently qualifying for the maximum accommodation supplement



Brownfield developments

- Extensions completed at Kingston Gardens and Mirridong
- Strzelecki House development on track to complete in 2H FY2019



Debt refinance

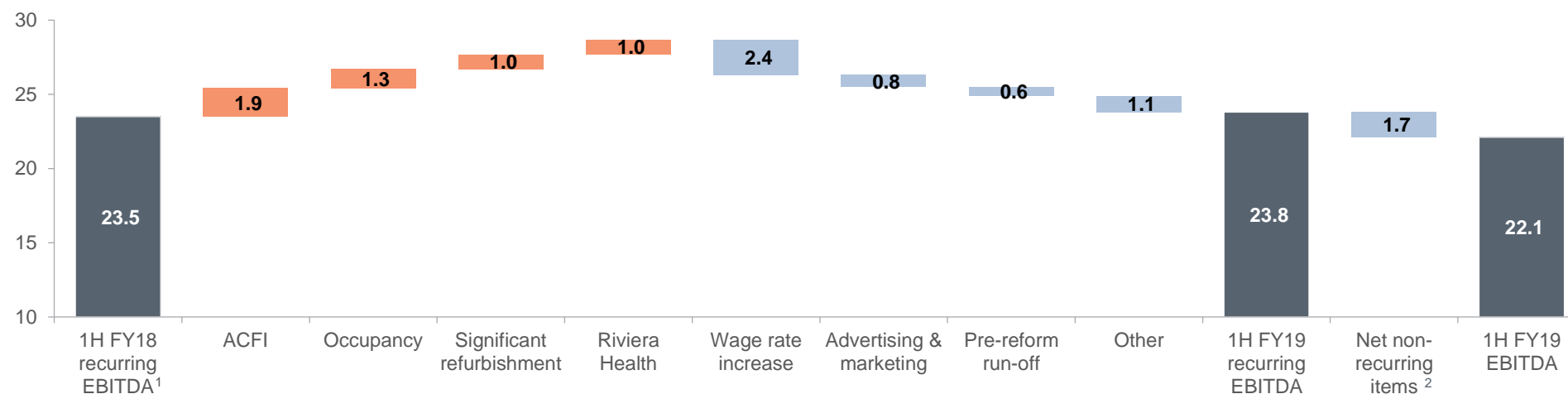
- New five year, \$345m syndicated loan facility secured providing funding certainty and supporting business growth



1H FY2019 earnings

Contributions from ACFI & occupancy increases offset by wage rate increases and marketing activity

1H FY2019 EBITDA bridge (\$m)



- Return of ACFI indexation (of 1.2%) plus added Government supplement increased revenue during the period
- Average occupancy of 93.6%³ was above pcg but below expectations across the portfolio following the announcement of the Royal Commission. It was also impacted by a small number of homes underperforming. Occupancy at 31 December 2018 was 92.0%³
- Homes significantly refurbished contributing as expected
- Riviera Health contribution impacted by underperformance at one of the four operating homes acquired. Overall integration is progressing well
- Wage rate increases exceed ACFI rate growth
- Advertising and marketing expenditure to support occupancy in a challenging environment

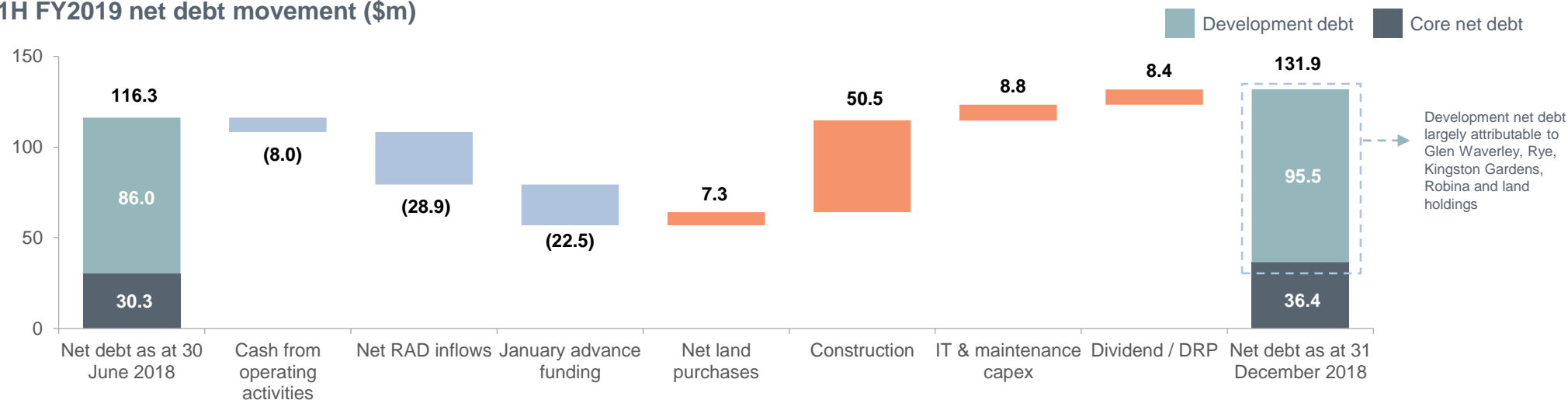
Notes:

1. 1H FY2018 comparatives normalised for \$1.4m CRD revenue adjustment
2. Net non-recurring items of \$1.7m comprises redundancies and greenfield start-up losses (refer to page 26 for a reconciliation)
3. Occupancy includes all homes but excludes places ramping up at new developments and offline for significant refurbishment

Financial position

Solid financial position with capital invested in expanding and enhancing Japara's portfolio

1H FY2019 net debt movement (\$m)



- New five year, \$345m syndicated loan facility provided by Japara's relationship banks, ANZ, CBA and NAB
 - Facility will ensure adequate growth funding and debt headroom over the longer term
- Net debt increased due to investment in growing and enhancing the portfolio
 - Core net debt of \$36.4m (0.7x FY2018 EBITDA)
 - Development debt of \$95.5m comprises work in progress on homes currently under construction and land holdings supporting future growth
 - Development debt to be reduced by net RAD cash inflows expected from new homes at Rye, Glen Waverley and Brighton-Le-Sands and recently completed brownfield extensions at Mirridong and Kingston Gardens
- Cash from operating activities impacted by home start up losses (\$1.0m), redundancies (\$0.7m), prepayments (\$3.0m) and other working capital movements
- IT & maintenance capex includes \$3.6m of IT expenditure and \$2.6m for furniture in new developments

Key operational metrics

Increased bed contract pricing supported \$28.9m of net RAD cash inflows with increased marketing expenditure impacting non-wage cost ratios

	1H FY2019	2H FY2018	1H FY2018	2H FY2017
Number of homes	49	48	44	43
Operational places	4,125	4,069	3,906	3,841
Average underlying occupancy ¹	93.6%	94.0%	92.3%	94.7%
Average revenue per occupied bed day (\$) ^{2,3}	276.6	276.7	275.0	273.4
Average Government revenue per occupied bed day (\$) ²	201.1	199.8	198.1	196.6
Staff costs to revenue ^{2,3}	69.7%	69.5%	70.3%	70.7%
Non-wage costs to revenue ^{2,3}	17.3%	16.6%	16.5%	15.4%
Average concessional residents ⁴	39.3%	38.7%	38.2%	39.0%
Average incoming bed contract price (\$'000)	355.7	323.9	350.6	351.7
Net RAD/Bond & ILU loan inflow (\$m)	28.9	15.7	25.9	26.7

Operational places movement

31 December 2017	3,906
Riverside Views	+24
Riviera Health	+210
Significant refurbishment off-line	-71
30 June 2018	4,069
Net developments on-line	+57
Kiverton Park closure	-30
Significant refurbishment movement	+29
31 December 2018	4,125

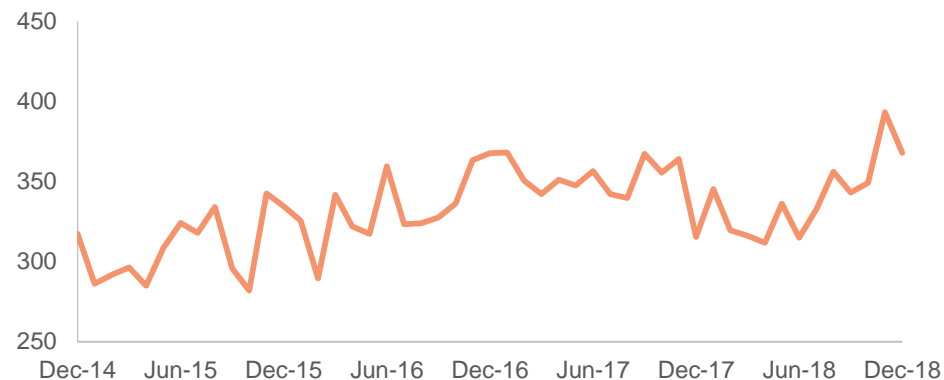
Notes:

1. 1H FY2019 occupancy includes all homes with adjustments for places ramping up at new developments and 42 places offline for significant refurbishment (71 places in 2H FY2018)
2. Metrics shown exclude the impact of all non recurring items
3. Prior period comparatives have been adjusted to exclude CRD revenue in those periods
4. Calculated as the number of concessional residents: operational places

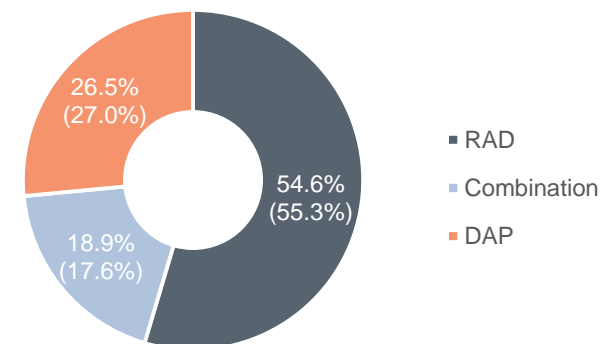
Resident trends

Average bed contract prices increased over the half with resident numbers declined in quarter two

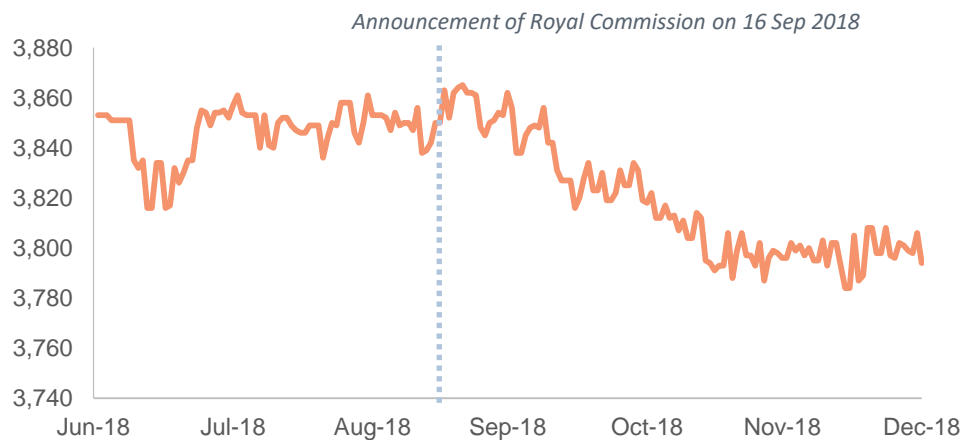
Average incoming bed contract price (\$'000)



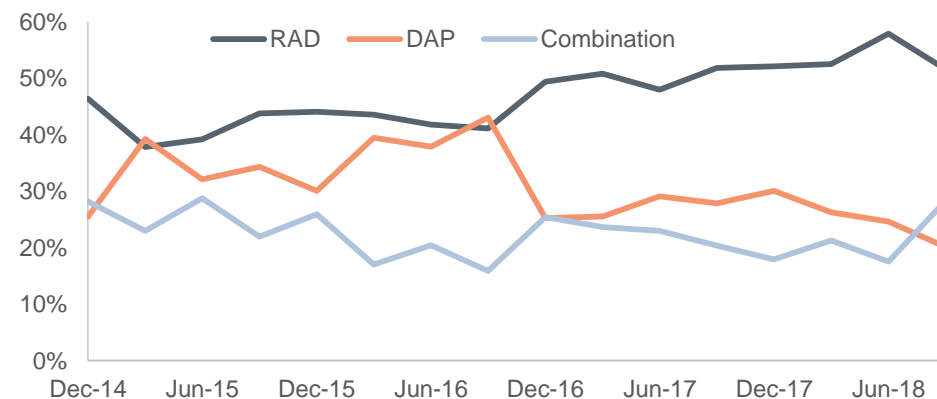
Non-concessional portfolio mix as at 31 December 2018
(30 June 2018 in brackets)



Total Residents



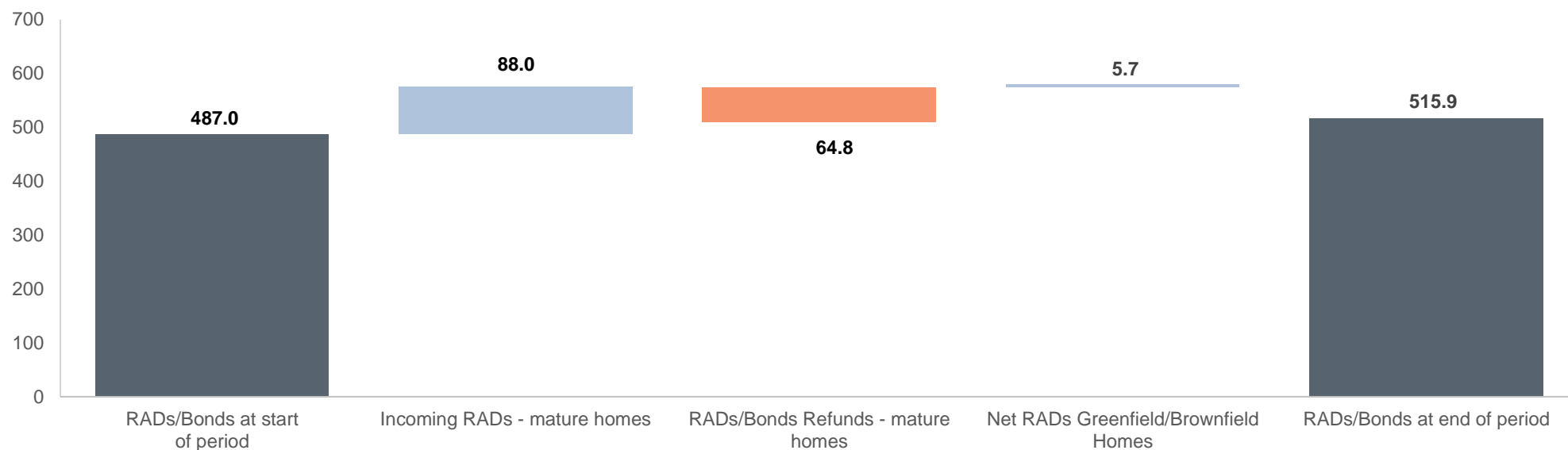
Payment preference of incoming non-concessional residents



1H FY2019 RAD liability movement

Widespread increase in net RAD inflows experienced across the portfolio's mature homes

RAD cash flow (\$m)



- Net RAD liability movement of \$28.9m in 1H FY2019
 - \$23.2m from mature homes
 - \$5.7m from completed greenfield and brownfield developments
- 2H FY2019 RAD uplift expected as new homes ramp up
 - The 3 greenfield homes were commissioned during October and November
 - An immediate focus on opening a new home is building resident volume quickly whilst RAD inflow can be more gradual

Section two

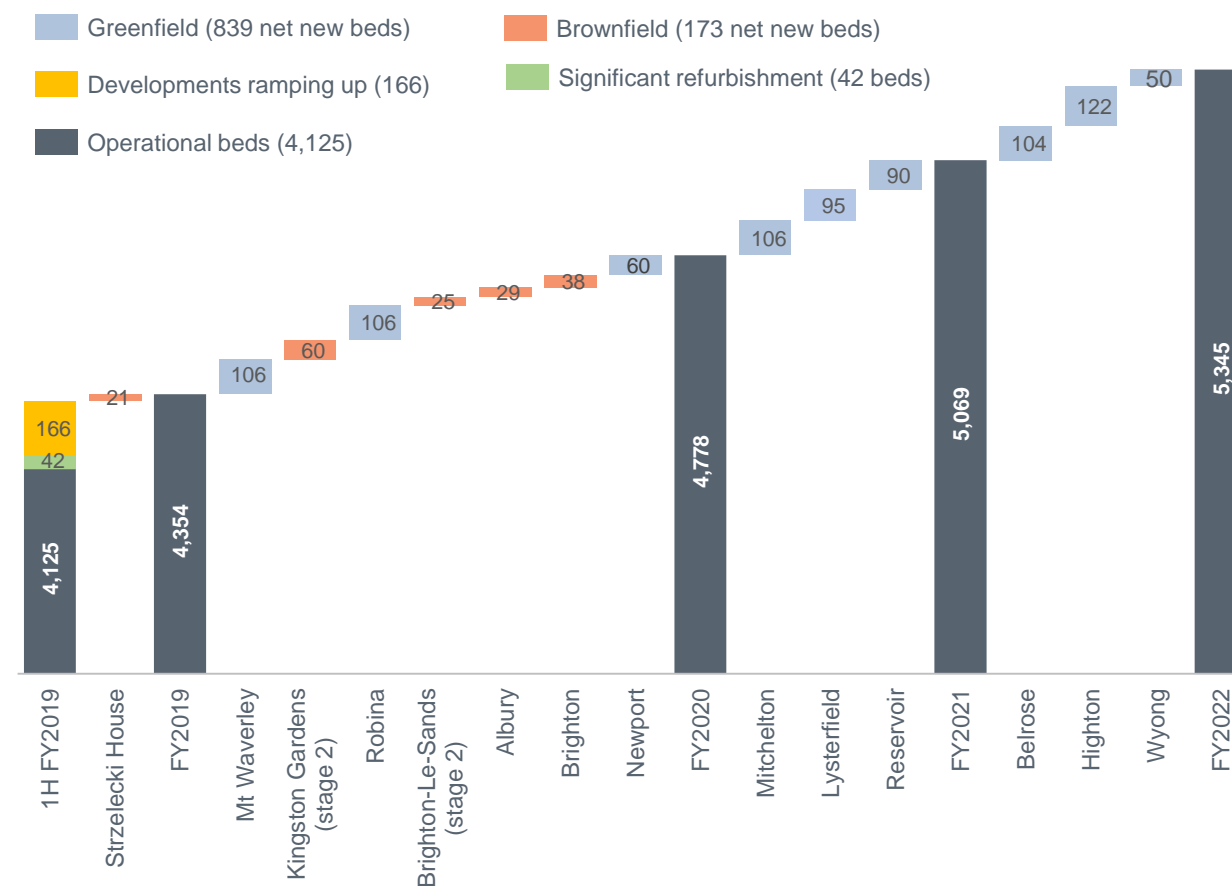
Strategic initiatives

Development summary

Development pipeline now comprises ~1,000 net new places, expected to be delivered by the end of FY2022, following the completion of 220 new greenfield places in 1H FY2019

- Japara's current development pipeline comprises:
 - Brownfield developments: 5 homes
 - Greenfield developments: 9 homes
 - Significant refurbishment: 7 homes
- Rye, Brighton-Le-Sands and Glen Waverley homes opened during the half and are currently ramping up
- Kingston Gardens brownfield development of 68 beds was completed with the decision made to refurbish the existing facility as a second stage with opening expected in FY2020
- Four homes were significantly refurbished during 1H FY2019
- A further four homes were identified as Stage 2 significant refurbishments bringing the total homes to be refurbished to seven
- Japara continually re-evaluates the development pipeline with regard to a number of considerations including financial, operational and development capacity**

Development pipeline (net new places)



Recent greenfield developments' case studies

Greenfield developments provide an economic entry to new, high quality homes in premium locations

The Highbury, Glen Waverley (VIC)

- The Highbury, located in Glen Waverley, Victoria is a new, 60 single room home with a four star 'Green Star' environmental rating
- The 2,797 sq.m site was acquired in December 2014 for \$3.3m with town planning approval received in July 2016
- Construction commenced in February 2017 and the site was delivered on budget for an approximate cost of \$16.8m
- Opened in October 2018 and currently has 31 residents¹



1. As at 19 February 2019

Brighton-Le-Sands (NSW)

- Brighton-Le-Sands, located in the Sydney suburb of Brighton-Le-Sands, is a new 61 bed home
- The 2,170 sq.m site was acquired in April 2018 as a partially completed development within the Riviera Health portfolio
 - Adjacent to the home is a further site of 780 sq.m upon which construction has commenced on an additional wing, expected to open in 2H FY2020, providing a further 25 new single rooms (these replace the demolished Jenny-Lyn home formerly on that site)
- Opened in October 2018 and currently has 48 residents¹



Other recent and near-term developments update

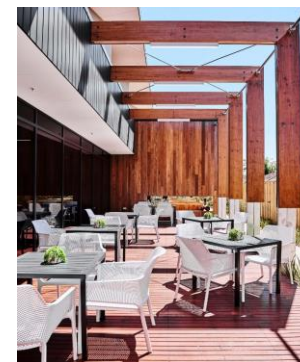
- Rye (opened November 2018)
 - New 99 single bed room home located on the Mornington Peninsula approximately one hour from Melbourne
- Kingston Gardens (new 68 bed wing opened September 2018)
 - Existing home to also be fully refurbished as stage 2 of development (underway)
- Mirridong (opened October 2018)
 - 16 single bed room extension to existing Bendigo home
- Belrose, Sydney
 - Development approval recently obtained for a 104 bed home
- Highton, Geelong
 - Development approval recently obtained for a 122 bed home
- Robina (opening 2019)
 - Construction underway (refer photo) for a new 106 single bed room, multi-level home located on the Gold Coast
- Mt Waverley (opening 2020)
 - Construction commenced on a new 106 single bed room home in metropolitan Melbourne



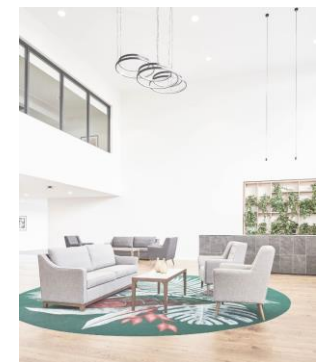
Robina (QLD) *construction progress*



Belrose (NSW) *render*



Rye (VIC)



Kingston Gardens (VIC)

Refurbishment and IT investment program

Significant refurbishments enhancing asset quality and resident experience and ongoing IT investment program augmenting service delivery

Significant refurbishment update

- Four homes significantly refurbished in 1H FY2019
- Stage 2 program of four homes has been identified and proposed to be delivered by completion of FY2020
- Currently 31 homes qualify for the maximum accommodation supplement with 41 homes expected to qualify by the end of FY2020 following the delivery of the remaining seven homes and near term developments¹
- Generates superior earnings and cash flow via accommodation supplements and ability to attract higher RADs and DAPs

Information technology investment update

- Objectives of the program include utilising technological advancements to enhance resident experience, provide additional clinical insights and improve business efficiency
- Key recent and current initiatives include the introduction or upgrade of:
 - Wi-Fi to every bed (complete) to support hotel services, clinical care, visiting GPs, etc.
 - business information and resident management systems to improve data analysis and tailoring of services (complete)
 - hotel services to promote family and community connectivity and access to movies, electronic books and games, etc. (trial phase)
 - clinical care & cyber security (vendor selection phase)

Notes:

1. Near term developments includes both brownfield and greenfield developments

Significant refurbishment program

Home	Expected completion
Scottvale (VIC)	Completed (1H FY2019)
Goonawarra (VIC)	Completed (1H FY2019)
Roccoco (VIC)	Completed (1H FY2019)
Springvale (VIC)	Completed (1H FY2019)
Coffs Harbour (NSW)	2H FY2019
Gympie (QLD)	2H FY2019
Hallam (VIC)	1H FY2020
Stage 2	
Elouera (VIC)	2H FY2020
Balmoral Grove (VIC)	2H FY2020
Capel Sands (VIC)	2H FY2020
Anglesea (VIC)	2H FY2020



Section three

Industry and business observations

Recent sector developments

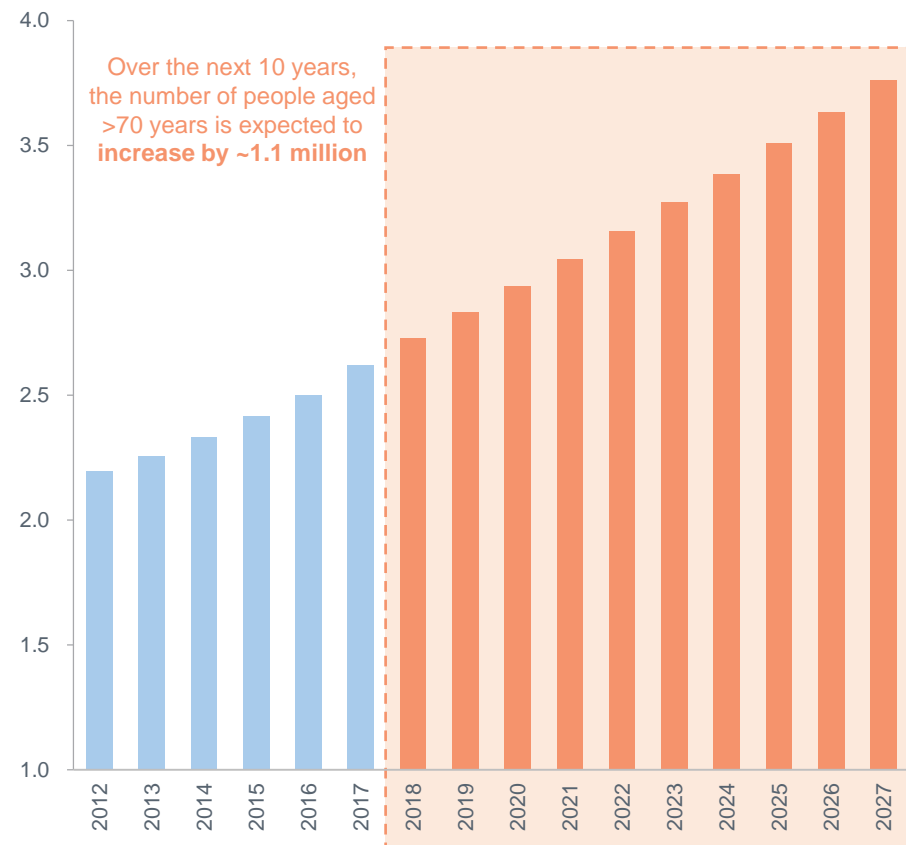
The residential aged care sector is currently undergoing a period of significant review and change . . .

- Royal Commission into Aged Care Quality and Safety
 - Commissioners – Ms Lynelle Briggs (AO) and The Hon. Justice Richard Tracey AM RFD QC
 - Key dates – commission established 8 October 2018; interim report due 31 October 2019 and final report due 30 April 2020
 - Japara lodged its full submission on time, made in response to the request to all residential aged care providers to provide an early written submission
 - There have been numerous inquiries into the sector over recent years. The commissioners' have advised they expect to examine the changes and developments which have followed previous inquiries, as well as the extent to which there has been implementation of recommendations from those inquiries
- Aged care provider general subsidy boost
 - The Federal Government announced on 10 February 2019 a "\$320 million general subsidy boost in 2018-19 to benefit senior Australians receiving residential aged care services from increased support for aged care providers"
 - Further details have subsequently become available indicating that this subsidy boost will be effected via an increase to the rate of residential care basic subsidies of approximately 9.5% between 20 March 2019 and 30 June 2019, after which time it will cease
- Transition to the new single Aged Care Quality Standards
 - The new standards, which come into effect from 1 July 2019, replace a number of existing standards including the Accreditation Standards, Home Care Standards and Transition Care Standards
 - The primary goal of implementing the new standards is to bring a greater focus on quality outcomes for residents rather than on provider processes
 - In order to support adherence to the new standards, Japara has resourced a comprehensive transition plan, including reviewing all of its current policies and procedures against the new standards and updating them where necessary. We have also developed an education program on the new standards which will shortly commence roll-out to approximately 5,000 staff

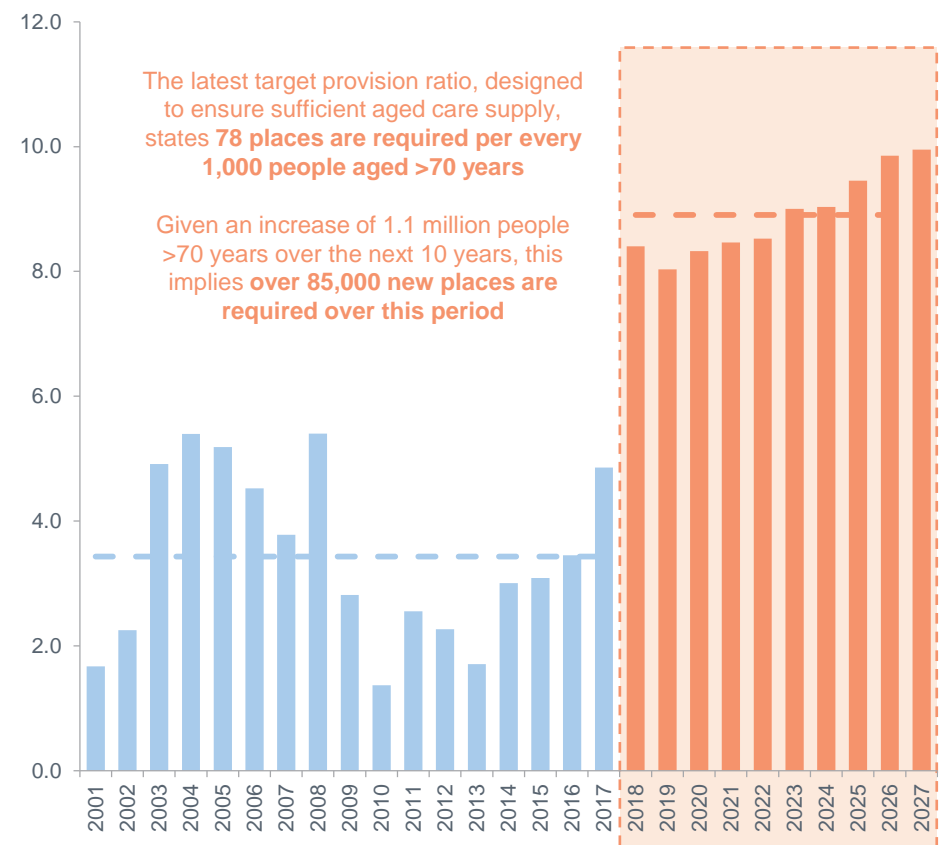
Ongoing demand for new aged care places

... with ongoing demand underpinned by changing demographics requiring over 85,000 additional aged care places over the next 10 years

Forecast of population aged 70+ (million)



Net new place additions over time ('000s)

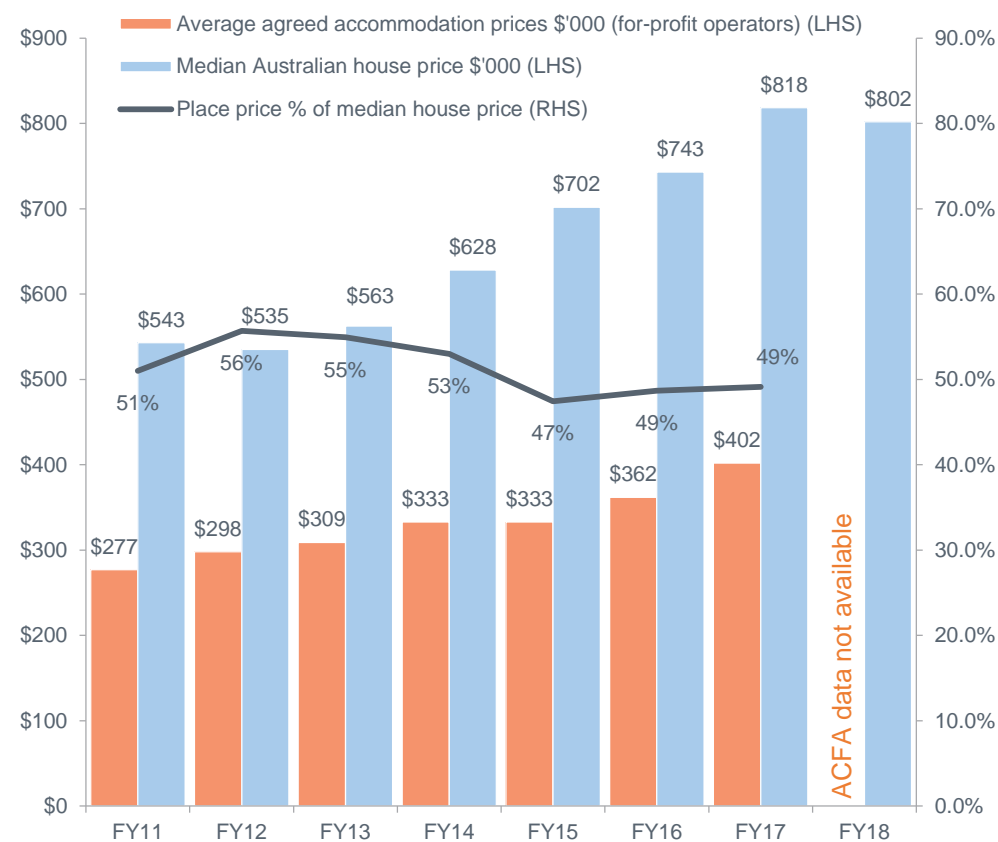


Source: Australian Bureau of Statistics 'Population Projections, Australia, 2012 (base) to 2101', ACFA Annual Report on Funding and Financing of the Aged Care Sector, Company information

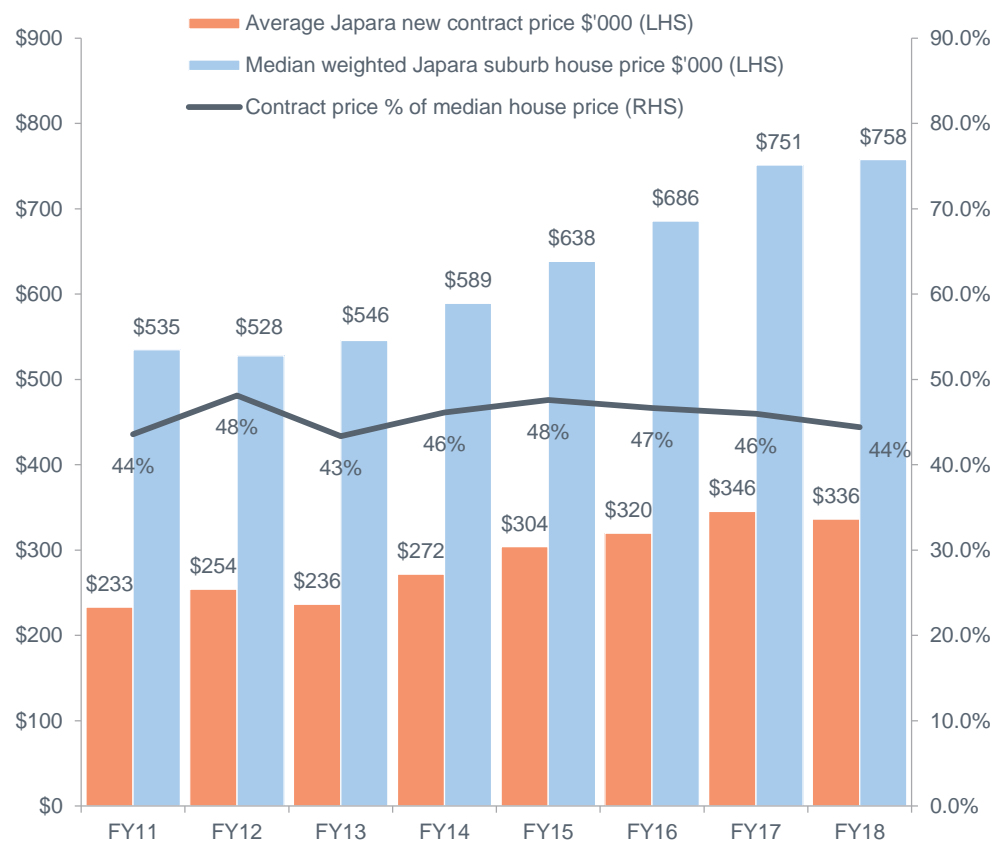
House prices versus room prices

Industry average room prices have increased in line with house prices over the last 8 years with Japara's average room prices showing a similar, albeit more conservative, profile

Average non-concessional place prices compared to average house prices



Average Japara place contract price compared to weighted (by places) average Japara suburb house prices



Source: Company information; Aged Care Financing Authority (ACFA) Annual Reports on the funding and financing of the Aged Care Sector (June 2013 – June 2018); realestate.com.au



Section four

Summary and outlook

Summary and outlook

Solid balance sheet and strong development pipeline provides resilience to short-term industry challenges

1H FY2019 summary and FY2019 outlook

- Underlying EBITDA of \$23.8m slightly above 1H FY2018 but below expectations due to occupancy pressures
- Growth in bed numbers from recently completed greenfield and brownfield developments and good progress on significant refurbishment program
- Strong cash flow driven by RAD inflows underpinned by higher bed contract prices
- Balance sheet strength maintained with net bank debt of \$131.9m at 31 December 2018 (\$36.4m core net debt, \$95.5m development debt) and a new five year \$345m syndicated loan facility secured
- Full year FY2019 EBITDA expected to be in line with FY2018 results, subject to no material changes in market or regulatory conditions. The outlook reflects:
 - the Government subsidy boost for residential aged care providers intended to benefit senior Australians receiving aged care services;
 - additional investment in our workforce and information technology to both support transition to the new aged care standards and the broader business during a challenging period; and
 - a more conservative position than previously anticipated on occupancy



Newport (VIC) render



Highton (VIC) render

Section five

Appendices

Appendix 1: Detailed Profit and Loss

	1H FY2019 \$'000	1H FY2018 \$'000	Change %	\$'000
Revenue				
Government care and accommodation funding	140,652	129,122	8.9%	11,530
Resident fees	52,679	51,473 ¹	2.3%	1,206
Other income	153	1,912	-92.0%	(1,759)
Total revenue & other income	193,484	182,507	6.0%	10,977
Expenses				
Employee benefits expense	(136,160)	(128,457)	6.0%	(7,703)
Resident costs	(17,099)	(15,123)	13.1%	(1,976)
Other costs	(18,120)	(14,663)	23.6%	(3,457)
Total expenses	(171,379)	(158,243)	8.3%	(13,136)
EBITDA	22,105	24,264 ¹	-8.9%	(2,159)
Depreciation and amortisation	(9,080)	(7,761)	17.0%	(1,319)
EBIT	13,025	16,503 ¹	-21.1%	(3,478)
Net finance costs	(2,353)	(1,745)	34.8%	(608)
Income tax expense	(3,121)	(4,479)	-30.3%	1,358
NPAT	7,551	10,279 ¹	-26.5%	(2,728)

1. Includes \$1.424 million of capital refurbishment deduction income

Appendix 2: Detailed Statutory Cash Flow Statement

	1H FY2019 \$'000	1H FY2018 \$'000
Cash flows from operating activities:		
Receipts from customers	215,528	200,294
Payments to suppliers and employees	(178,465)	(158,706)
Income taxes paid	(3,508)	(4,900)
Interest received	225	361
Finance costs paid	(3,327)	(1,971)
Net cash provided by operating activities	30,453	35,078
Cash flows from investing activities:		
Purchase of land & buildings	(7,865)	(14,828)
Proceeds from sale of land and buildings	578	207
Purchase of plant and equipment	(5,738)	(4,659)
Capital works in progress	(53,492)	(31,536)
Net cash used in investing activities	(66,517)	(50,816)
Cash flows from financing activities:		
Proceeds from issue of share capital under DRP	1,578	394
Dividends paid	(9,972)	(15,268)
Net proceeds from bank borrowings	32,000	25,000
Proceeds from RADs and ILU resident loans	96,510	101,690
Repayment of RADs/accommodation bonds and ILU resident loans	(67,565)	(75,838)
Net cash provided by financing activities	52,551	35,978
Net increase in cash and cash equivalents held	16,487	20,240
Cash and cash equivalents at beginning of the half year	29,158	41,376
Cash and cash equivalents at end of the half year	45,645	61,616

Appendix 3: Balance Sheet

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Assets		
Current assets		
Cash	45,645	29,158
Trade and other receivables	10,713	9,356
Current tax receivable	4,774	2,629
Other assets	8,953	6,405
Total current assets	70,085	47,548
Non-current assets		
Trade and other receivables	2,275	1,834
Non-current assets held for sale	1,073	1,728
Property, plant and equipment	741,201	687,720
Investment property	38,398	38,398
Intangible assets	491,378	491,378
Total non-current assets	1,274,325	1,221,058
Total assets	1,344,410	1,268,606
Liabilities		
Current liabilities		
Trade and other payables	47,878	38,570
Other liabilities	7,662	3,650
Borrowings	22,000	21,000
Other financial liabilities	538,293	509,348
Employee provisions	34,272	33,456
Total current liabilities	650,105	606,024
Non-current liabilities		
Borrowings	155,500	124,500
Deferred tax liabilities	2,319	563
Employee provisions	3,551	3,741
Total non-current liabilities	161,370	128,804
Total liabilities	811,475	734,828
Net assets	532,935	533,778
Equity		
Issued capital	524,540	522,962
Retained earnings	8,395	10,816
Total equity	532,935	533,778

Appendix 4: Non-recurring items reconciliation

	1H FY2019 \$m	1H FY2018 \$m
Non-recurring items		
Redundancies / restructuring	(0.7)	(1.6)
Greenfield start-up losses	(1.0)	(0.7)
Property revaluation gains	-	1.7
Total	(1.7)	(0.6)

Appendix 5: Portfolio Metrics

	As at 31 Dec 2018		As at 31 Dec 2017		Change
Resident mix					
Concessional	1,598	42%	1,442	40%	10.8%
RAD	1,139	30%	1,141	31%	(0.2%)
DAP	553	15%	530	15%	4.3%
Combination	395	10%	349	10%	13.2%
Pre-reform high-care places	26	1%	34	1%	(23.5%)
Respite	66	2%	69	2%	(4.3%)
TCP / other	17	0%	32	1%	(46.9%)
Total residents	3,794	100%	3,597	100%	5.5%
Staffing					
Number of staff (including part time and casuals)	5,477		5,254		4.2%
Places					
Operational places	4,125		3,906		5.6%
Non-operational places	585		115		408.7%
Provisional ACAR allocations	747		929		(19.6%)
Total places	5,457		4,950		10.2%
Places (metro/major regional, regional split)					
Metro/major regional	4,216	77%	3,008	61%	40.2%
Regional	1,241	23%	1,942	39%	(36.1%)
Total places	5,457	100%	4,950	100%	10.2%
Geographic spread (places)					
VIC	66%		69%		
NSW	15%		9%		
SA	8%		9%		
QLD	7%		8%		
TAS	4%		5%		
Total	100%		100%		
Funded bed days	699,460		653,024		7.1%

Appendix 6: Developments update

Significant greenfield developments program comprising ~1,000 new places

Greenfield developments

	Program status	Total new places	Net new places	Estimated resident admission
Mt Waverley (Melbourne)	Construction	106	106	2H FY2020
Robina (Gold Coast)	Construction	106	106	1H FY2020
Newport (Melbourne)	Construction	120	60	2H FY2020
Mitchelton (Brisbane)	Detailed design	106	106	1H FY2021
Lysterfield (Melbourne)	Town planning ¹	95	95	1H FY2021
Reservoir (Melbourne)	Town planning	90	90	2H FY2021
Belrose (Sydney)	Detailed design	104	104	1H FY2022
Highton (Geelong)	Detailed design	122	122	1H FY2022
Wyong (regional NSW)	Concept design	120	50	1H FY2022
Total		969	839	

1. Heightened town planning risk associated with this proposed development

Appendix 6: Developments update (cont.)

Completed developments

Home	Total new places built	Net new places	Completed
Noosa (Sunshine Coast)	12	0	1H FY2018
Launceston (Tasmania)	88	88	1H FY2018
Glen Waverley (Melbourne)	60	60	1H FY2019
Rye (Victoria)	99	99	1H FY2019
Brighton-Le-Sands (Sydney)	61	61	1H FY2019
Kingston Gardens Stage 1 (Springvale)	68	-4	1H FY2019
Mirridong (Bendigo)	16	16	1H FY2019
Total	404	320	

Brownfield developments

Home	Program status	Total new places	Net new places	Estimated resident admission
Strzelecki House (Mirboo North)	Construction	17	17 ¹	2H FY2019
Kingston Gardens Stage 2 (Springvale)	Construction	60	60	1H FY2020
Brighton-Le-Sands Stage 2 (Sydney)	Construction	25	25	2H FY2020
Albury (NSW)	Tender	29	29	2H FY2020
Brighton (SA)	Tender	52	38	2H FY2020
Total		183	169	

1. Currently 4 beds are off-line during building works

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