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ESTIA HEALTH REPORTS 1H FY19 EBITDA[1] OF $46.9M AND CONTINUES PORTFOLIO IMPROVEMENT

Estia Health Limited (ASX: EHE), one of Australia's largest aged care providers, today reported EBITDA of $46.9m for the first half of FY19, as the company continued to achieve revenue growth, executing its strategy of continually improving resident care and services, and expanding and improving its portfolio of homes.

1H FY19 Highlights

- EBITDA up 3.1% to $46.9 million[1]
- NPAT of $21.1 million up 4.1%
- Revenue up 6.6% to $289.7 million
- Average period occupancy of 93.9%
- Net bank debt of $64.8 million, gearing reduced to 0.7x EBITDA, undrawn bank facilities in excess of $250 million
- Reduced RAD inflows resulting from preference changes, lower occupancy and probate repayment
- $43.4 million of capital investment undertaken in expansion and portfolio improvement
- Fully franked interim dividend of 8.0 cents/share declared
- Full year FY19 EBITDA Guidance revised to low to mid single digit percentage increase on FY18 EBITDA from the existing portfolio of homes subject to no further material changes in market or regulatory conditions. Costs arising directly from the Royal Commission and the initial costs of opening new homes at Southport and Maroochydore in May and August will be reported separately and are not reflected in Guidance. Guidance does not assume any potential contribution from the recent Government announcement regarding increased funding.

Estia Chief Executive Officer Ian Thorley said the result reflected the company's continued execution of the strategy implemented since early 2017.

"It was pleasing to sustain margins and profitability during a particularly challenging time for the sector, which has weighed on our occupancy and impacted costs compared to our expectations," Mr Thorley said.

"In the last 6 months we have continued to invest in our quality management and resident care systems. We are well advanced with a significant project to prepare us for new Quality Standards which take effect from 1st July 2019. This includes staff education, technology development, customer engagement and service development.

"Our two new homes which opened in FY18 at Kogarah and Twin Waters have achieved high levels of occupancy and are meeting operating and financial expectations with combined RAD balances of $26m, which we expect to continue to increase in coming months. Two new homes at Southport and Maroochydore are on schedule to open in May and August this year. We continue to assess expansion opportunities including greenfield and brownfield developments for future periods.

"Our brownfield investment continues and by the end of December 2019 we expect to have more than 4,097 beds in 42 homes refurbished under the Government's significant refurbishment program, improving the experience of our residents and generating improved investment returns.

"Our leadership team has been further bolstered by the commencement of Sean Bilton, as COO and Deputy CEO, adding to the depth and expertise of the executive team.

"We look forward to the outcomes from the Royal Commission into Aged Care which we believe will lead to a higher performing and more sustainable aged care sector that meets community expectations and provides safe and high-quality care for all consumers. We submitted our comprehensive response in full on the due date of 7th January 2019."

[1] EBITDA is categorised as non-IFRS financial information and is calculated as operating profit for the period adding back depreciation, amortisation and impairment expenses, gains/losses on sale of assets and direct costs associated with the Royal Commission expenses. EBITDA is presented to assist in understanding the financial performance of the business.

Portfolio Expansion and Enhancement

Capital investment of $26.3 million was made in the period which will expand capacity by 344 beds at Maroochydore and Southport (Qld) and Blakehurst (NSW) when complete. Both Queensland homes are expected to open on time and on budget in 2019. Blakehurst has been delayed due to the need for site remediation which has been fully assessed but delays opening of the home until November 2020.

A further $17.1 million was invested in refurbishment and capital replacement programs to enhance the resident experience, improved asset quality and extend asset lifecycle. This investment will also result in incremental earnings through higher accommodation supplements and the improved marketability of the homes.

Capital Management

Strong operating cash flow conversion of 100% of EBITDA to cash continues to keep bank debt levels well within the target range and to fund dividends and capital investment.

Net bank debt at 31 December was $64.8 million, resulting in a gearing ratio of 0.7x EBITDA. Estia has total debt facilities of $330.0 million of which more than $250.0 million are undrawn.

Estia’s net RAD inflows in the period were impacted by the continuation of trends emerging in FY18, with lower RAD preferences and a higher level of concessional residents. Overall net outflows were $1.2 million, after a reduction of $16.4 million of probate liability; net RAD inflows from current residents were $15.2 million, with $10.7 million being received at the new homes in Twin Waters, QLD, and Kogarah, NSW.

Royal Commission Costs

Direct external costs, incurred in the six months to 31 December 2018, associated with preparing for and responding to the Royal Commission were $914,000.

Dividend

Estia is pleased to announce it has declared an interim dividend of 8.0 cents per share, fully-franked, representing a payout ratio of approximately 100% of Net Profit After Tax for the period. The record date for the dividend is 6th March with payment to be made on 27th March. The Company intends to re-activate the Dividend Reinvestment Plan later in 2019 and will advise shareholders of the detail in due course.

Outlook

Commenting on the outlook for FY19 and beyond Mr Thorley said:

“Estia now expects to deliver low to mid-single digit percentage increase on FY18 EBITDA from the existing portfolio of homes in FY19 subject to no further material changes in market or regulatory conditions.

“Consistent with previous advice, costs arising directly from the Royal Commission and the initial costs of opening new homes at Southport and Maroochydore in May and August are not reflected in this Guidance. In addition, whilst we welcome the recent announcement by the Federal Government in relation to additional funding and look forward to the details in due course, we have not included that funding in our Guidance.”

“Looking further ahead, the Royal Commission represents the opportunity to create a sustainable, high quality aged care sector which meets society’s expectations of care and balances those expectations with how much society is willing and can afford to pay. We believe that the future will have a key role for well-governed, quality-focused operators like Estia with both scale and capital to meeting the demands for choice and for capacity needed to support the ageing demographics of Australia.”

-ENDS-

Further Inquiries:

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Investor and Analyst Teleconference Details:

Estia CEO Ian Thorley and CFO Steve Lemlin will host an analyst and investor conference call commencing at 9:30am (AEDT) today which will also be webcast.

Dial in details: Australia 1800 123 296 or 02 8038 5221

Conference call: 9468327

Webcast can be viewed at: https://webcast.openbriefing.com/4918/