

25 October 2019

## **2019 AGM Addresses & Presentation**

Japara Healthcare Limited (ASX: **JHC**) is holding its 2019 Annual General Meeting at 2pm (AEDT) in Melbourne today.

Attached are copies of the Meeting addresses and presentation.

For further information please contact:

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## **JAPARA HEALTHCARE LIMITED 2019 AGM CHAIRMAN'S ADDRESS – LINDA BARDO NICHOLLS AO**

**25 OCTOBER 2019**

FY2019 was both eventful and challenging for Japara and the aged care sector at large – and of course, with continuing great focus on ensuring quality care for all our residents.

With regards to your Company's performance, we achieved revenue growth through additional contributions from recently developed and acquired homes, and a temporary Federal Government subsidy increase. It is a matter of record that this growth was more than offset by increased operating costs including EBA wage rate increases, higher utility expenses and costs of participating in the Royal Commission. There was also some softening in occupancy rates, as experienced across the sector.

Accordingly, our earnings, and those of the sector, have continued to deteriorate particularly as Federal Government care funding, excluding the temporary funding subsidy, has failed to keep pace with the actual cost of providing the standards of care we require and we deliver. This includes the key cost of staffing, where wage rate increases are set under state-based EBA arrangements.

On a positive note, excellent progress was made on our development program. We completed four new homes including our 50th and newest home in Robina, Queensland. This home, which was proudly opened in July 2019, accommodates 106 residents and provides amenities across six levels. All four new homes are testament to the high quality, functionality and amenity achievable and demanded within our residential care homes. Over 250 residents are now living in the new homes. This level has surpassed our expectations and contributed to Japara achieving an important milestone of caring for over 4,000 residents for the first time.

The Royal Commission into Aged Care Quality and Safety formally commenced during the year and has been, and continues to be, a major focus for Japara and the aged care sector. The Royal Commission has wide ranging terms of reference with numerous hearings, visits and community forums being held across Australia to gather evidence and receive feedback as part of a thorough review of both home and residential care. Some of the topics covered to date include the provision of care, access to services, diversity, younger people in care and the workforce.

As one of the aged care industry leaders, Japara has provided early submissions to the Royal Commission and evidence at several of the hearings including extensively at the Perth hearing in June 2019. The Perth evidence was largely centred around a case study from 2015 focusing on the delivery of person-centred care at our Mitcham home in South Australia. The Royal Commission has also inquired into Japara's compulsory reporting and staff management processes.

We envisage that any findings for Japara from the Perth hearing will be considered in the Royal Commission's interim report which is due to be presented to the Governor-General on 31 October 2019. Following a six-month extension announced last month, the Royal Commission's final report is now due by 12 November 2020. We continue to support the Royal Commission. We hope it brings changes that provide better outcomes now and in the future for all aged care residents and delivers much needed long-term sustainability for the industry.

There was significant activity within Japara during the year in preparing for the introduction of the new Aged Care Quality Standards which came into effect on 1 July 2019. These standards focus on consumer outcomes and reflect the level of care and services expected by the community. Japara implemented an innovative, digital program to help educate and train our staff, and all Board members, in delivering care and services in line with the new Standards.

Your Company is also benefitting from the recent appointment of Clinical Professor Leanne Rowe AM to the Board. Leanne is a highly skilled and experienced medical practitioner and non-executive director, with extensive clinical experience across aged care, acute care, mental and community health.

As Presiding Member of the Victorian Medical Panels, Leanne provides guidance and medical opinions in complex medical, surgical and legal disputes. As the new Chairman of our Zero Harm Committee, Leanne brings valuable insight to Japara during challenging times for the sector. The Board welcomes your support for the election of Leanne later in the meeting.

At the Royal Commission's Cairns hearing in July 2019, food and nutrition within residential aged care were areas of focus. Over recent years, Japara has introduced initiatives within its homes to promote a holistic approach to food to meet our residents' individual tastes and nutritional needs. We make greater use of in-season fresh fruits and vegetables and prefer meals to be freshly prepared and cooked on the premises by our trained team of chefs to minimise the use of pre-prepared, convenience foods. Our goal is to provide each resident with fresh, wholesome and appetising food to be enjoyed as part of a dining experience.

As part of an on-going investment program undertaken during the year, meals are now being served family style in intimate dining spaces. Attention to table settings, customer service and overall ambience adds to the dining experience ensuring meal-times are a highlight for our residents as they dine in dignity. We recently recruited a Senior Nutritionist to increase our capability in providing dietetic support and assistance to residents including the roll out of a program to further reduce the reliance on supplements.

Japara's 50 homes throughout Australia care for residents in need of high care. Around 80% of Japara residents have some form of cognitive impairment and 70% require active assistance with continence management. We are proud of our over 5,600 strong team of high calibre and dedicated employees whose ongoing commitment to excellence saw 10 of our homes re-accredited by the Federal Government regulator during the year. Additionally, we received 57 unannounced assessment contact audits and maintained our 100% full accreditation record.

Notwithstanding the current challenging environment, we will continue to deliver on our development program to meet the growing future demand for residential aged care services. Our CEO will address this further within his presentation.

I would like to conclude by thanking our excellent team of staff for their on-going dedication and commitment in providing high quality care to our residents and their families.

I would like to thank our management team, including those who joined us during the year. Their efforts during what has been and continues to be challenging times have been exceptional.

I would like to thank my fellow directors for your wisdom and dedication during the year and acknowledge the leadership of our Managing Director, Andrew Sudholz, not only as CEO of Japara but also in his role as Chair of the Aged Care Guild representing our industry to Government.

Finally, thank you to you, our shareholders, for your on-going support of Japara and investment into 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**

## **2019 AGM CEO'S PRESENTATION – ANDREW SUDHOLZ**

**25 OCTOBER 2019**

Thanks Linda and good afternoon everyone.

I would like to join Linda in reiterating our commitment to an ongoing deep focus on ensuring quality care for all our residents and our support for the work of the Royal Commission.

In gaining a fuller picture of our Company and the sector, today I will provide a brief review of the sector dynamics and then talk about our strategic direction and development program.

### **Sector dynamics**

To start – sector dynamics. As people are living longer, and healthcare continues to improve, our aging population is increasingly dealing with chronic and complex health conditions, including dementia. From all of our own lived experiences, people typically don't enter residential aged care by choice, preferring to stay in more traditional housing on an independent or semi-supported basis. When this becomes impracticable, residential aged care is usually the best alternative for providing the necessary care and support services for these elderly people.

Australia has a growing elderly population, a result of people living longer and the significant increase in births in the post-war era. This is illustrated on the slide behind me which shows the annual increase in the population of Australians aged 75 plus through to 2032. Such growth requires delivery of a large volume of new places to the residential aged care sector over the next 10 years.

While the medium to long term demand outlook is strong, the sector has experienced some near-term softening in occupancy rates as the supply of new places built in anticipation of this demand has exceeded current growth requirements. Also, the significant level of public scrutiny faced by the sector in recent years, including through the Royal Commission, has anecdotally contributed to the softening in occupancy rates.

Japara has historically achieved occupancy levels above the sector average and continues to do so. Our hope and belief is that the Federal Government will provide the necessary ongoing support for the sector to build and operate new homes and we remain committed to delivering additional capacity to meet the projected care and accommodation needs of elderly Australians.

### **Turning to the strategic direction of Japara and our development program.**

We have an extensive, staged development program through which we expect to deliver over 1,100 net new places to the market by the end of FY2022. There are currently eight greenfield and seven brownfield projects within the program at various stages of development. Japara owns or has secured land sites for all these projects. We seek to deliver approximately 300 new beds each year on a consistent basis and this program will allow us to commission new homes progressively whilst keeping peak development debt at prudent levels.

During the year we have made excellent progress in delivering state of the art new homes that provide best in market accommodation and care for our new residents. Four new greenfield developments were completed in Glen Waverley (Victoria), Rye (Victoria), Brighton-Le-Sands (NSW) and Robina (Queensland), adding 325 new places to our portfolio. Additionally, two brownfield extensions at our Kingston Gardens and Mirridong homes in Victoria were completed providing a further 84 new places.

Development costs are, to a large extent, initially funded from our banking facilities. This debt is expected to be repaid by refundable accommodation deposit inflows received from residents entering the new or re-developed homes post completion. A new \$345 million syndicated loan facility was secured with our existing banks during the year, with a facility availability date through to September 2023 in support of the development program and general business operations.

In addition to our development program, we have a significant refurbishment program currently operating across six of our existing homes. Six other homes were significantly refurbished during the year, with 33 of our 50 homes now at an enhanced standard which qualifies for additional supplement funding from the Federal Government for concessional residents. This program is another way we can deliver improved facilities for the benefit of our residents and achieve additional revenue.

We do however constantly evaluate our development program having regard to a number of considerations including supply/demand, government funding, operational and development capacity, investment return and the market environment.

We continue to position our business around the continuum of care model which will result in further growth in our senior living business. We have now acquired additional land adjoining our Brighton home in Melbourne to facilitate a high-end senior living development on the site and are in planning phase for circa 110 independent living units to be developed on land adjoining our existing aged care home in Mt Eliza (Victoria).

As Linda mentioned, Japara achieved a significant milestone in that, for the first time, we care for more than 4,000 elderly residents in our homes throughout Australia and our specialised dementia care program is being further expanded across a number of our homes to provide better outcomes for our residents.

Over the past years we have also invested heavily in information technology with new systems in place for workforce management, enterprise resource planning and resident management, and we have now completed the roll out of Wi-Fi to every bed at all of our homes.

## **Conclusion**

I would like to conclude by also acknowledging and thanking all our tremendous staff within our 50 homes, ably lead by a dedicated group of Home Managers, and all our support office staff and the management team. The capability, commitment and resilience of our workforce is exceptional.

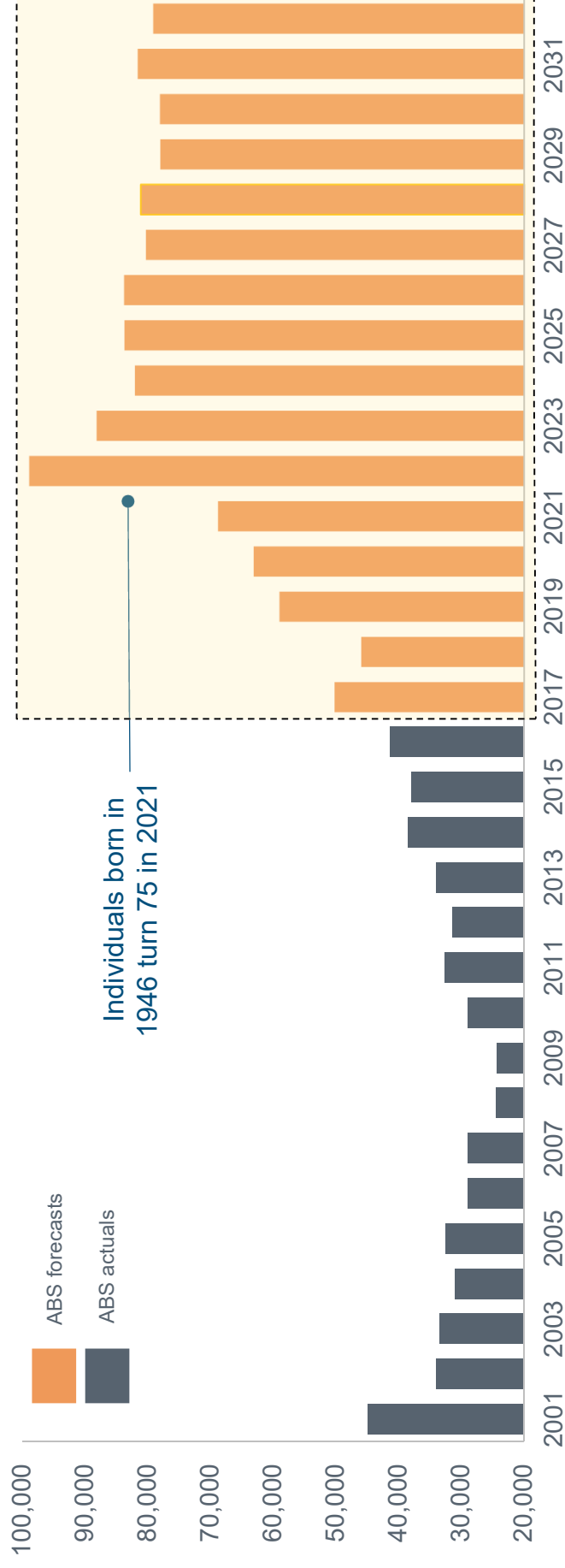
Finally, I would like to thank you for your support and attendance today and would like to leave you with a short video of some of the exceptional investments we are making to enhance the lives of our aged care residents.

Thank you.

# Future demand for aged care places

Growth in Australians aged 75 plus requires delivery of a large volume of new places to the residential aged care sector over the next 10 years

**Annual increase in population cohort aged 75+ ('000)**



Source: Australian Bureau of Statistics 'Population Projections, Australia, 2017 (base)'

**JAPARA HEALTHCARE LIMITED  
2019 AGM REMUNERATION & NOMINATION COMMITTEE  
CHAIRMAN'S PRESENTATION – JO-ANNE STEPHENSON**

**25 OCTOBER 2019**

Thank you Linda, and good afternoon everyone.

Today I wanted to make some brief comments to you in relation to the 2019 remuneration outcomes and also, as a result of changes to the Executive Remuneration and Incentive arrangements for 2020 and beyond, to take this opportunity to outline those key changes and answer any questions you may have.

The Remuneration and Nomination Committee works closely with our in house experts as well as external remuneration consultants to make sure that our decisions on remuneration arrangements are soundly based and well informed including through benchmarking the remuneration of our executives against comparable organisations.

Attending today's meeting is Andrew Holland from KPMG's Executive Remuneration Group. KPMG has assisted the Board with remuneration arrangements and Andrew has made himself available today.

2019 Remuneration Report

First, let me address the 2019 remuneration outcomes for senior executives. The Remuneration Report for FY2019 is set out in the Company's 2019 Annual Report.

Consistent with the past two years, the CEO and CFO were the only executive key management personnel or KMP members for the 2019 year.

During FY2019 executives received a fixed salary and were also eligible for a variable incentive under the single incentive framework introduced at the end of 2017. Whilst the first two gateways - maintaining aged care accreditation at all of our homes and no material breach of regulatory or compliance guidelines were met - the financial hurdle of a minimum level of EBITDA as set by the Board, being 10% growth for FY2019, was not achieved.

Whilst top line revenue growth was achieved in FY2019, wages and energy costs continued to escalate at a rate exceeding non-temporary Federal Government funding and additional costs were incurred relating to the Aged Care Royal Commission. As a result, as you have heard from Linda, overall earnings declined for the year.

The FY2017 long term incentive grant, eligible for vesting at 30 June 2019, also did not vest.

As outlined in table 16.4.4 of the Remuneration Report, this is the third successive year where zero incentives have vested for our Executives. The business is facing a number of external factors that have impacted the entire sector over this period.

Fixed remuneration for the Executives was increased by 2.5% for FY2019 after taking into account that there had been no change since FY2017.

So, now looking ahead to the **FY2020** financial year.

Following external stakeholder feedback & consultation after the 2018 AGM and in recognition of the difficult operating environment, and Japara's financial and current share price performance, the Board has made a number of substantial remuneration framework changes for FY2020.

In designing the new framework, the Board has sought to balance the desire to align executive reward with the position of shareholders against the need to retain and reward Executives appropriately for their contributions, taking into account the complexity, effort and outcomes required by the business in context of the sectoral factors including the focus of the Aged Care Royal Commission and residential aged care specific funding issues.

Key changes to the FY2020 Executive remuneration framework include:

- the CEO (Andrew Sudholz) has volunteered to reduce his ongoing fixed remuneration. From 26 August 2019, his fixed remuneration has been reduced from \$1,015,000 to \$800,000. This reduction was accompanied by a one-off grant of equity equivalent to the pro-rata amount of the reduction for the balance of the 2020 year only, being \$182,000. Any incentive opportunities for the CEO will be based off the reduced fixed remuneration;
- the removal of the FY2019 Executive Incentive Plan and replacing it with separate short-term incentive and long-term incentive plans;
- the upfront gateways of ongoing accreditation of all Japara homes and no material breach of regulatory compliance guidelines have been retained;
- the STI (capped at a maximum of 50% of fixed remuneration) must be self-funding (i.e. the Board approved budget must be met before an STI pool can be funded) and performance will be assessed against a group of financial and non-financial KPIs. 50% of any STI awarded will be in equity and deferred for one year; and
- the LTI (capped at a maximum of 100% of fixed remuneration) will be based on the achievement of both Earnings Per Share growth and Total Shareholder Return hurdles over a lengthened four year performance period.

The Company also has the ability to clawback any incentive award received inappropriately.

A resolution is included at this AGM to approve the issue of performance rights to the CEO under the new LTI plan. These rights will only vest if the Board determines the gateway measures and performance hurdles for FY2020 have been achieved.

Table 16.3 in the Remuneration Report provides a comparison of the changes in 2020 to the 2018/19 framework.

The Board has also reviewed other remuneration settings for FY2020 which resulted in:

- a once off award of equity to the CFO which recognises his broader business responsibilities throughout the period of the Aged Care Royal Commission and as a retention mechanism. This equity award will vest in 12 months from award subject to satisfactory performance and continued employment;
- no change in the total fee pool from which non-executive directors are remunerated; and
- no change to non-executive directors' fees.

In summary, the Board has listened to stakeholder feedback and carefully considered the most appropriate incentives to ensure the remuneration structure is aligned with shareholder interests and value creation. The Board has also been conscious of the headwinds facing the sector within which the Company operates.

The Board will continue to closely monitor the performance of the executive team and the Company relative to the gateways and performance hurdles, and will diligently determine the award of incentives.