

REGIS HEALTHCARE LIMITED

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30 October 2019

Chairman and MD Addresses to Annual General Meeting

In accordance with Listing Rule 3.13.3, we attach the Chairman and MD addresses to the Regis Healthcare AGM on 30 October 2019.

Webcast facilities are available to listen to the Annual General Meeting. Details are provided on the following webpage:

<https://www.regis.com.au/investor-information/forward-calendar/>

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Regis 2019 AGM – Chairman's speech

I would now like to turn to my address to this AGM.

The past twelve months has been a busy and challenging year for the whole of the Aged Care sector, including Regis.

During the year:

- there have been significant regulatory reforms implemented which increased the focus on resident care needs and well being;
- the Royal Commission held hearings across much of Australia and has triggered widespread public interest, concerns and community debate;
- financial strains across the sector have become more evident and point to on-going concerns about the sustainability of some operators

Importantly, these and other issues have added to the workload and pressures felt by staff and management across the sector.

I would like to briefly address the current state of the Aged Care sector and how Regis is navigating its way through these many challenges.

But before I do, I want first to acknowledge and thank all Regis staff and management for their dedication and care they have provided to the more than 6,700 people across our 63 residential care homes and through our home care and retirement village services. This has been a very hard year for our staff. There has been a significant change in expectations and requirements placed on our staff with the rollout on 1 July 2019 of the new Single Aged Care Quality Framework and with the new assessment approach adopted by the Commonwealth Quality and Safety Commission from 1 January this year.

These are good changes, which required our staff to participate in extensive training, change management and communication activities outside of their daily roles in readiness for the 1 July rollout, and I thank them for their efforts in preparing our business for this major change.

These and other changes have occurred against a backdrop of regular negative news about the sector, including sometimes shocking stories of inadequate care and abuse of vulnerable older Australians. Regis staff can't help but be affected by these stories, and feel less-trusted and extra pressure from the public and families, when I believe they are doing everything they can, each day, to provide the best possible care for our residents.

I expect the pressures on the sector will continue over the year ahead as the Royal Commission and the community continue to probe the sector and seek policy solutions that will ensure older Australians get the care they need and deserve. While it is essential to expose serious shortfalls that have and do occur across the sector, it's equally important to tell the positive stories of excellent care and staff going the extra mile to help balance out the ledger. We need to ensure we can still attract the right people, further investment and give comfort to residents and the families of those who are entering into care.

I will share one of these good news stories with you shortly.

There have been several sector-wide matters raised through the past year that I would now like to

comment on before turning to Regis' performance and plans.

The first of these is the questioning of the role of 'for profit' operators in Aged Care. Some have claimed that there should be no place in the Aged Care sector for 'for profit' operators claiming that they trade-off providing good resident care in order to deliver greater profits demanded by shareholders. Regis emphatically rejects this notion.

Your company's philosophy, instead, is that by consistently providing excellent care in high standard facilities we will deliver great outcomes for residents and their families, have more engaged and capable staff and therefore create an environment where your business is able to innovate, invest and grow. This has been the Regis model which has proven to work over more than two decades.

This leads me to my second discussion point, the sustainability of the sector. Aged Care for older Australians can only be sustainably funded either by the Government, or by residents/home care recipients and their families. The amount of funding and the split of funding between the Government and care recipients are clearly policy and political decisions the whole community must acknowledge and support and we presume will be considered as part of the current Royal commission - they are matters that have been covered in several reports into the sector over the past decade. Industry operators also provide investment funding to the sector but this will only be sustained if those investors, be they not-for-profit or for-profit, can realise an adequate return on those investments.

The current environment for Residential care operators is one which has seen the Government pull back its funding to the residential sector in favour of home care and where considerable uncertainty remains as to what additional service fees are permitted to be charged to residents. Inevitably, with these two key sources of funding either having fallen or been stagnant in recent years, by default, operators across the sector have funded their increased costs via lower or negative profits.

In its simplest form, this can be seen in the latest industry data available from the Aged Care Financing Authority, with the rate of growth in sector revenues, more than two thirds of which come from the Government, growing in the 2017/18 year by 1.7% versus industry costs growing by 5.3%. As a result, sector 'surpluses' which are used for investment and innovation have been eroded, such that more than 44% of the residential sector were experiencing negative EBITDA in 2017/18, up from 32% the year earlier.

At the same time others are understandably calling for an increase in staffing, training, better facilities for certain resident needs and additional care services, in response to the issues coming out of the Royal Commission investigations.

This points to a need for rigorous policy and funding debates as we all strive to establish a sound future care platform that is also financially viable.

These issues were well covered in the 2019 ACFA report to the Government which sets out seven characteristics from a funding perspective of a viable and sustainable aged care system. Briefly these characteristics are:

1. A need for confidence and trust: providers will not invest unless they have confidence in the adequacy and stability of government policies;
2. There needs to be a stable, efficient and effective funding tool which provides financial stabil-

ity to aged care providers and the Government;

3. Appropriate overall funding is required, as is the right split between home care and residential care;
4. Funding that is flexible and adaptable to changing demographics and demands;
5. That consumers who can afford to do so, should make a greater financial contribution to their own care;
6. Effective prudential oversight is required for an orderly transition of the sector (and, I would add, to ensure proper standards are delivered), and
7. Sound management and governance arrangements.

These key requirements are a good starting point for the funding policy debate we need to have over the year ahead.

Now turning to Regis and our 2019 financial year performance. Despite the industry backdrop just mentioned, your company produced solid outcomes across key measures.

One of your Board's key responsibilities during the year was to appoint a new CEO after Ross Johnston announced in February this year that he would be stepping down in early September after more than ten years in the role. We are delighted to have been able to appoint Dr Linda Mellors and you will hear from her shortly.

The delivery of care that meets the expectations of our residents, home care clients and their families is a key imperative for the company and to this end we invested heavily through the year to ensure the successful implementation of the new Single Aged Care Quality Framework. These reforms are aimed at greater resident dignity and care choices and are consistent with personalising the experience of all residents that call Regis home. In preparation for these changes, Regis undertook a comprehensive education and communication program, to introduce and implement the new standards across the business.

Reflecting a trend towards the aged care population having higher levels of frailty and more complex care needs, your Board last year established a new board Clinical Governance and Care Committee, chaired by Professor Christine Bennett. Christine's extensive medical and hospital background will help ensure Regis' approach to care services will continue to help set the benchmark for the sector. The establishment of this Committee recognises the importance of Board oversight of clinical governance.

Once again, our business was subject to significant oversight by the regulators with all of the 24 facilities reviewed being successfully re-accredited during the reporting period.

Our 2019 financial performance continued to be impacted by the funding pressures of recent years. EBITDA contributions from recent investment in our business were more than offset by past funding cuts still feeding through. Reflecting this, in FY19, the rate of indexation of revenues, at 1.2%, was outstripped by cost growth of around 3%. This is despite the additional funding provided by government in the last quarter of the year. Pleasingly, our net RAD cashflow was up substantially during the year to \$143 million, which enabled Regis to pay down \$101 million in net debt.

Regis delivered statutory Net Profit after tax of \$50.9 million and Directors declared a final dividend of 7.11 cents per share fully franked which was paid to shareholders on 26 September. The full year dividend of 15.23 cents per shares, which was 100% of reported NPAT excluding the non-cash fair value gain on two of the retirement living sites.

The 2019 financial year saw the company adopt a more modest growth strategy, with a focus on disciplined balance sheet management while still seeking value enhancing growth opportunities. Your Board actively considered both aged care and retirement living opportunities and is moving ahead cautiously with both in the current environment.

Linda will cover these issues in more detail shortly.

Regis performed strongly across a range of non-financial measures in FY19, including a strong lift in employee engagement and the delivery of our key sustainability programs launched in 2018.

Phase 1 of the solar program is complete with solar panels installed in 17 facilities. The payback for this investment is 3.5 years. Phase 2 will be completed in FY20. Phase 1 of the LED lighting program is almost complete and has a payback period of 2.9 years. We expect both of these programs to result in substantial CO2 emission reductions and cost savings over the longer term.

In closing, I would like to thank my fellow Directors, the Executive team and the many committed employees at Regis Healthcare for their contribution throughout the year. I would also like to welcome all new employees who have joined us over this time, and finally, I would like to thank you, our shareholders for your continuing support.

To remind us of why we are here, and why I believe you as shareholders should be proud of your company, I would like to finish with this story about April Harding and her rehabilitation at Regis.

April agreed to let us tell her story because she wants people her age to know that “the body is capable of amazing things, so don’t give up.” At the age of 90, April became a resident at Regis Shenley in Camberwell, April was admitted into permanent care because it was unlikely that she would ever be well enough to return home. April was determined to regain her strength and walk again. April was supported by the physio at Regis Shenley Manor, partaking in regular sessions up to three times a week.

April was not only able to walk again, but she decided she would rather live in her own home. Regis was able to work with April to plan her discharge and ensure she had all the support she needed to return to her home safely. Regis Home Care has now been providing support to April for 12 months. She now walks around the block every day, plays bridge with her friends, and is an avid supporter of the arts, regularly attending MSO concerts in the city.

Regis 2019 AGM - Managing Director and CEO's speech

Thanks Graham.

I would like to start by acknowledging the traditional owners of the land upon which we meet today, the Wurundjeri people of the Kulin Nation, and pay my respects to elders past, present and emerging, and any Aboriginal people here with us today.

The acknowledgment and respect of elders in our Aboriginal and Torres Strait Islander communities is instructive for all Australians.

Thank you to the Regis Directors, staff, residents and families for making me feel so welcome as the incoming Managing Director and Chief Executive Officer.

Today, I would like to provide shareholders with an overview of Regis' performance over the past year, against strategic, care and financial metrics.

Financial Results

Firstly, let me summarise our financial performance.

For the year ended 30 June 2019, Regis reported a statutory Net Profit After Tax (NPAT) of \$50.9 million.

This corresponded to a normalised NPAT of \$47.2m and normalised EBITDA of \$111.4m. The NPAT and EBITDA were both within our guidance range. Note that the normalisations were explained in the presentation of results for FY19 and relate mainly to the direct costs associated with responding to the Aged Care Royal Commission and non-cash gain on our retirement village sites.

A key contributor to the revenue increase in FY19 was the performance of the ten Facilities ramping up, which continue to deliver well against key metrics. However, the EBITDA contributions from growth were more than offset by headwinds from a number of factors. These include the annual indexation (Commonwealth Own-Purpose Expenses (COPE)) of only 1.2% in FY19 against an increase in expenses of approximately 3%. The expense increase was principally from wages growth resulting from Enterprise Agreement increases in the aged care business. The headwinds also included the continued impact of Federal Government cutbacks to residential aged care funding (and associated increases in expenses), which were implemented in FY17 and FY18 and have continued to grandfather in.

The Federal Government provided a funding boost to aged care providers in FY19 and Regis' share of this was \$10.8m which was received in the second half of the period.

Normalised net operating cashflow was the highlight of the FY19 financial result at \$220.1m. This was underpinned by EBITDA and the net RAD and entry contribution cashflow of \$142.9m which enabled repayment of \$101m of net debt. The net RAD and entry contribution cashflow was more than double the FY18 result of \$62.6m.

Across the period, average occupancy of 92.7% was achieved and this is reflective of industry wide occupancy challenges.

Aged Care Royal Commission

The industry is the subject of a Royal Commission that commenced in FY19. The interim report is expected tomorrow and the final report is now expected in November 2020 following a 6-month extension.

We share with the community the concern, anger and disappointment about those cases of poor and negligent care highlighted through the Royal Commission. We also know that Regis and others share a strong and sustained commitment to a high standard of care and service, notwithstanding the current constraints of the funding and policy arrangements. The Government needs to ensure that the aged care sector is sustainable. Regis will continue to advocate for better funding and more consumer choice to allow care and service standards to improve across the industry.

You will see from our annual report that Regis spent \$2m on direct activities associated with the Royal Commission during FY19. This has been focussed on coordinating Regis' response to information requests and monitoring the issues and themes coming out of the Commission hearings. Regis is focussed on continuous improvement and will continue to look for learnings and opportunities to stay at the forefront of care and services for our consumers.

Care and Services

This company was founded more than 25 years ago on a platform of providing better accommodation and care. Caring for our residents and clients remains fundamental to the way Regis operates. Today, Regis' scale of operations means we are able to provide a broad range of on site and off site care and support services that contribute to the quality and safety of care and services for our residents and clients.

A significant event during the period was the introduction of a new Single Aged Care Quality Framework, which took effect from 1 July 2019. Regis welcomes this Framework, which is designed to more actively involve consumers in decision making about their care, with a key focus on dignity and choice. It should also increase the consistency of care standards across the industry.

Regis invested resources into education and communicating the new framework to employees, residents, clients and families. One of the key platforms of the Regis implementation is "knowing is caring" – a reminder to our staff to really know our residents in terms of their interests, past professions and hobbies, and goals. This knowledge supports our staff to work with our consumers to allow them to realise their wellbeing goals.

I would also like to share a story about the importance of our social engagement focus for residents. Regis Armadale resident Paula is 91 years old and has been living at our Regis home since March 2018. She was born in Croatia and migrated to Australia in 1968. Paula made her own decision to move into residential care to combat her loneliness and isolation as well as to avoid stress to her family with her increasing care needs. Paula particularly loves the weekly art class with our art therapist – a new skill and now great love for Paula. Paula says "I have found my Peace, the staff are amazing, so caring and always happy and I am happy, happy to live here, it is my home. Many people ask me where I live and I tell them, I live at the best place, I highly recommend Regis Armadale".

The issue of food in residential aged care has received significant media focus of late. I would like to draw shareholders' attention to the food offerings across Regis' residential aged care homes. Each of our homes serves nutritious meals that have been designed and planned with dietitians according to the needs and preferences of older people. Fresh produce, meat and dairy are delivered to our homes and meals are prepared and cooked on site by our chefs and cooks. Meal options are provided and special needs are catered for. A national catering team oversees this menu planning process, which means that quality and cost benefits are achieved as a result of our scale.

Our menu review assesses that the menu adheres to good menu planning principles to ensure we provide our residents with appropriate variety, colours, minimal repetition and continue to meet the Australian Dietary Guidelines for individuals aged 70+ years. Information from resident surveys and feedback is critical to this process. Our catering program is industry leading and regular reviews are undertaken to identify continuous improvement opportunities.

Our people

Regis is committed to investing in our employees and their skills and abilities to ensure they bring their best to the people in our care and accessing our services. Our size and reputation as one of Australia's largest aged care providers means we are uniquely placed to offer career opportunities and pathways to our team members.

Regis has a range of selection, training and professional development programs for care, clinical, support and management staff. One highlight is our Carers Connect recruitment program to find staff with a caring nature, kindness and good communication skills along with the hands-on skills required of the roles. We also have a dedicated assessment and development program to support our nurses and their learning needs throughout their employment with Regis, including a graduate nurse program.

Another theme coming from the Royal Commission is a lack of career progression opportunities in aged care. This is another area where Regis' scale is a distinct advantage. I'd like to share the story of Rameez Hassan, who is one of the Managers of our Clinical Support Team.

Rameez has been in the aged care industry for 12 years, commencing as a carer before completing a Graduate Certificate in Nursing to become an Enrolled Nurse. Rameez then commenced study to become a Registered Nurse and joined Regis during this time because of the development and career opportunities offered by this company. In his ten years with Regis, Rameez has worked as an Enrolled Nurse, Registered Nurse, Clinical Manager and with the Clinical Support Team. Rameez is a terrific example of a young, enthusiastic clinical leader in aged care, who derives satisfaction and joy from providing care, teaching and mentoring.

On the topic of employee satisfaction, our third employee engagement survey was conducted in FY19 and showed a pleasing improvement in employee engagement and culture.

The Victorian Enterprise Agreement was approved by the Fair Work Commission in March 2019 and the agreements for Queensland and the Northern Territory have been agreed and are pending approval.

The company is acutely aware of the negativity being expressed towards our industry and the impact this has on our employees. Regis is actively supporting staff through this difficult period, with the knowledge that the vast majority of aged care staff come to work every day to provide skilled and loving care to the elderly. The examples of criminal conduct and poor behaviours should be roundly condemned as they have been. It is just as important that the good work and intent from the vast majority of aged care workers in the industry be acknowledged and recognised.

To this end, I would like to read a small part of a letter from one of our NSW families “My sister and I realised that we could no longer care for our parents and were advised by professionals that they both needed to be in care. On our first visit to Regis Elmore Vale, the atmosphere was lovely and you could see the care given by staff. Everyone we encountered was so warm and welcoming. Sadly our mother passed away and we are grateful she spent her final days cared for by such genuine people.”

Market position and Growth

Regis’ medium-term growth strategy continues to combine organic growth, including greenfield and brownfield developments, and acquisitions of single facilities and portfolios. In FY19, the company was disciplined with its balance sheet management whilst continuing to focus on value enhancing growth opportunities. This strategy will continue in FY20.

Capital expenditure of \$68.7m was invested in FY19, principally in growth related activities.

Regis also provided an update to our strategy to unlock value from our existing retirement village assets. The development of new retirement living units across the Blackburn South (VIC) and Nedlands (WA) locations is part of the company’s current development program. These developments will add to the current 588 independent living units across six locations. Masterplanning has been finalised, planning approval obtained and a dedicated debt facility is in place to support these developments.

The company has now delivered 1247 new residential aged care places since May 2016. The residential aged care developments have delivered high quality facilities with a focus on care, quality and compliance, EBITDA, RADs and occupancy. As at 30 June 2019, 850 or 68% of the new places were occupied and \$240m of net RAD cashflow had been collected.

Regis delivered three new residential aged care homes in FY19:

- Lutwyche, Brisbane (delivered August 2018, 130 operational places)
- Elmore Vale, Newcastle (delivered September 2018, 120 operational places)
- Port Coogee, Perth (delivered September 2018, 139 operational places)

All three of these new facilities were delivered on time and within budget and are collectively performing to plan against care and financial metrics.

The three facilities acquired from Presbyterian Care Tasmania on 1 August 2017 are also performing in line with expectations. The portfolio made a greater EBITDA contribution than in the prior year and, as anticipated, was EPS accretive in FY19.

We are pleased to advise that last week we contracted to acquire two aged care homes from Lower Burdekin Home for the Aged Society, offering a total of 173 aged care places. Subject to approval from the Department of Health, Regis will assume ownership of these assets from 1 March 2020. Lower Burdekin Home for the Aged Society is a community based not for profit organisation. A key consideration for them in this process was that the assets continue to operate and care for the community. Each of the facilities was compliant with all 44 standards in their last accreditation audits. These are regional homes that we will be able to support with our existing operational network as they are located around one hour south of the Regis Kirwan Facility in Townsville. Of particular note, these homes are the only aged care facilities in the catchment.

As part of Regis' commitment to maintaining high quality residential aged care homes, our significant refurbishment program continued in FY19 with 56 facilities or 96% of eligible residents now residing in an enhanced or new living environment at the end of the period. The company receives a higher accommodation supplement for supported residents as a result. Regis executed the improvements and attracted the accommodation supplement at a much faster rate than other providers. This means that more Regis residents have and continue to enjoy the amenity benefits over a longer period.

Broadly, the company's focus will continue to be on ramping up the new facilities, completing the Burdekin transaction and integrating the homes, and progressing greenfield developments and extensions. Future acquisition opportunities continue to be assessed against the company's criteria.

The sector is eagerly awaiting the conclusion of the Royal Commission and a more stable policy and funding environment. Regis is ready to respond to recommendations arising from the Royal Commission and more favourable policy and funding settings.

Conclusion

Providing care and services to older Australians is an essential part of the health and social care system. Regis enjoys a reputation as a provider and employer of choice for good reason. The care and wellbeing of residents and clients is central to our coordinated efforts, and the support provided to and the wellbeing of our staff allow us to provide consistently high levels of care and services. With Regis' size, additional service offerings, economies of scale, and efficient systems and processes, we are able to provide a return to shareholders who have invested in the building and development of our facilities.

I would like to thank our Board of Directors for providing me with the opportunity to lead and contribute to a great company with sound principles and values.

My sincere appreciation to every one of our employees committed to providing person-centred care and support to our residents and clients every day.

I would also like to thank our residents, clients and families for choosing Regis as their trusted provider of aged, retirement and home care services.

I look forward to working with the Board, Executive and Management teams as we continue Regis' 25-year commitment to care and services for older Australians.

2019 Snapshot

63

Aged Care Facilities

6,700+

Residents call Regis Home

8,500+

People care for them

7,078

Operational Places

\$1.3

Billion asset value

6

Retirement Villages
Co-located with Aged Care

24

Facilities successfully
re-accredited

389

New Places opened
at 3 Facilities

7%

Improvement in
Employee Engagement