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ASX ANNOUNCEMENT

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The Manager
Company Announcements Office
Australian Securities Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

Regis Healthcare announces $25.9 million net loss after tax

Regis Healthcare Limited (ASX:REG) today announced a net loss after tax of $25.9 million for the half-year ended 31 December 2022.

Key Points:

- Revenue from services of $380.4 million, up 4.4% on pcp
  - Average occupancy of 91.1%[1] (H1 FY22: 89.3%)
  - Q2 FY23 average AN-ACC per resident per day of $220.70[2]
- Underlying EBITDA[3] of $45.1 million (H1 FY22: $44.1 million)
- Net loss after tax of $25.9 million (H1 FY22: net loss of $3.7 million)
  - H1 FY23 includes $28.5 million of amortisation of operating places net of tax (H1 FY22: $14.3 million)[4]
- NPATA[3] of $2.6 million (H1 FY22: $10.6 million)
  - H1 FY23 includes COVID-19 outbreak costs of $13.0 million before tax (H1 FY22: $4.5 million)
- Net operating cash flow of $62.0 million[5] includes net RAD receipts of $8.7 million
- Net debt of $67.6 million[5]
  - Impacted by approximately $32.4 million of COVID-19 outbreak costs claimed/to be claimed not yet received from Government
- Board of Directors resolved to pay an interim dividend of 2.00 cents per ordinary share (50% franked) payable 14 April 2023

Commenting on the financial results, Regis' Managing Director and Chief Executive Officer, Dr Linda Mellors said, "The Company has managed the ongoing difficult operating environment in a disciplined manner reflecting the continuing challenges of COVID-19, chronic workforce shortages and a complex reform program.

As expected, the transition from ACFI to the AN-ACC funding model on 1 October 2022 has provided a modest increase in revenue, however, a substantial component of this has been absorbed by higher staffing costs driven by chronic workforce shortages and COVID-19, leading to the necessary use of overtime and agency, and pay increases under Modern Awards and Enterprise Agreements."

Sector Reform

Regis remains firmly in favour of sector reform across the key elements of workforce, funding, governance, quality and safety, regulation and system design. The Company remains confident that the industry reforms will be net positive over the medium to long-term, with the current challenging period to continue as the new funding model and mandated care minutes requirement is rolled-out ahead of the modelling from the Independent Health and Aged Care Pricing Authority (IHACPA). The most pressing challenges include addressing the chronic sector workforce shortages, systemic underfunding, the ongoing presence of COVID-19, and the scale and manner in which the reform program is progressing.

The Company is a member of the Aged & Community Care Providers Association (ACCPA), and strongly supports its role in highlighting that the sector needs a well-functioning, supported and appropriately regulated industry to provide older Australians with safe and high-quality care into the future.

On 21 February 2023, the Fair Work Commission delivered its decision on Stage 2 of the Work Value Case. The outcome of the Decision was the 15% interim increase on Award rates granted in Stage 1 for direct aged care workers will be operative from 30 June 2023 in its totality. Recreational activities officers, lifestyle officers and head chef/head cook classifications under the Aged Care Award 2010 will also receive a 15% increase to their Award rates. The 15% interim increase on Award rates for these classifications commences from 30 June 2023. Regis awaits confirmation from the Government as to its commitment to fully-fund the Award rate increases including on-costs.

The Company notes that 70% of providers contributing to the StewartBrown Aged Care Sector Report[6] and 66% of providers as per the Department of Health and Aged Care (DHAC) Quarterly Financial Snapshot[7] are delivering operating losses and that the viability of the sector continues to be at high risk, with associated flow on risk to the broader health system, particularly the hospital network.

Dr Mellors said, “It is essential that the costs of delivering a reliably high quality care and service model are fully considered by IHACPA and funded appropriately. The Company has commenced an organisational redesign to refocus resources towards more direct care in response to the Government’s care minutes mandate, which takes effect on 1 October 2023.”

As one of the largest and most sophisticated providers in Australia, Regis remains well placed against many of the reforms, including corporate governance, clinical governance, prudential controls, food and nutrition standards, registered nurses on site 24/7, digital innovation, and career pathways across all roles.

Financial Results

$ millions	H1 FY23	H1 FY22	△ H1 FY22 To H1 FY23
Revenue from services	380.4	364.2	4.4%
Other income[8]	33.3	31.4	6.1%
Staff expenses	286.4	263.7	8.6%
Underlying EBITDA[3]	45.1	44.1	2.3%
NPATA[3]	2.6	10.6	(75.5%)
Capital expenditure	18.8	30.7	(38.8%)
Net RAD cash inflow	8.7	47.1	(81.5%)
Net operating cash flow	62.0	126.7	(51.1%)
Net debt	67.6	60.8	(11.2%)
Average occupancy %[1]	91.1%	89.3%	1.8 pts
Staff expenses / revenue from services %	75.3%	72.4%	(2.9 pts)
Basic EPS (cents per share)	(8.61)	(1.22)	

Trading Performance

Revenue from services of $380.4 million for the half-year ended 31 December 2022 included COPE indexation of 1.7%[9] and new AN-ACC funding from 1 October 2022 (Q2 FY23 $9.40 uplift per resident per day).

The increase in average occupancy to 91.1%[1] (H1 FY22: 89.3%) was assisted by improvement in Victoria, Tasmania and the Northern Territory. The occupancy spot rate at 24 February 2023 was 92.3%.

Government underfunding of resident care continued in the first half of FY23 with higher staff expenses driven by the impact of higher Award and Enterprise Agreements only partly offset by the introduction of AN-ACC and the 1 July 2022 COPE indexation increase (1.7%)[9]. The Company continued to incur additional overtime and agency costs as a result of sector workforce challenges and the ongoing impact of COVID-19.

H1 FY23 net profit after income tax but before amortisation of operating places (NPATA) of $2.6 million included the following one-off/non-recurring items (before tax):

- COVID-19 outbreak costs - $13.0 million;
- COVID-19 Government single site worker grants - $0.5 million;
- Professional services costs incurred in relation to potential employee entitlements underpayments program of work - $1.8 million; and
- Other net gains - $0.7 million.

COVID-19

Regis has continued to be impacted by COVID-19 whilst maintaining a focus on the wellbeing of residents, clients and employees. Residents have continued to be provided with care, services and support, and the business has provided updates to impacted homes' residents, families and employees. The Company has a mandated COVID-19 vaccination policy for employees and continues to offer residents COVID-19 vaccination and booster doses, as well as access to anti-viral medications.

Status of Government COVID-19 Outbreak Grants

Regis incurred COVID-19 outbreak costs of $13.0 million during the half-year including incremental staff expenses, personal protective equipment, infection prevention and control, and employee welfare.

DHAC has advised the industry of delays in processing COVID-19 outbreak claims. Regis has submitted claims of $20.1 million in relation to H2 FY22 and a further $12.3 million submitted/to be submitted in relation to H1 FY23 for eligible COVID-19 outbreak costs which have not as yet been received. Regis expects to receive approval and receipts for the majority of claims by 30 June 2023.

Cash Flow and Net Debt

Net cash flow from operating activities for the half-year ended 31 December 2022 was $62.0 million[5] (H1 FY22: $126.7 million). Refundable Accommodation Deposits (RADs) and accommodation bond net cash inflows were $8.7 million (H1 FY22: $47.1 million).

In December 2022, the Company refinanced $255 million of its debt facility by extending maturity through to March 2027. In addition, the Company elected to reduce the total facility from $515 million to $405 million in recognition of anticipated working capital and investment requirements.

Net debt of $67.6 million[5] was impacted by the non-receipt of COVID-19 outbreak grants.

Capital Expenditure

During the year, the Company invested $18.8 million (H1 FY22: $30.7 million) in capital expenditure including property development, refurbishment and replacement capital expenditure. In the prior corresponding period, Regis acquired land in Belrose, New South Wales for $15.2 million.

During the period, Regis commenced its greenfield development in Camberwell, Victoria.
This development will have 112 beds and is estimated to open in FY25.

In addition, the Company continued to invest in strategic technology projects including continuation of WiFi enabled upgrades across residential aged care homes and retirement villages, clinical care system optimisation, and electronic medication management system roll-out.

Potential Employee Entitlement Underpayments

As previously reported, Regis announced to the ASX on 9 August 2021 that it had identified potential underpayments of employee entitlements to certain current and former employees under its enterprise agreements. These payment shortfalls had arisen because some employee entitlements due under various enterprise agreements were recorded inaccurately in the payroll system. This has led to incorrect payments to a number of employees.

Regis, with the assistance of external advisors, continues to determine the extent of underpayments. Based on additional analysis undertaken during the period, Regis has maintained a provision of $37.7 million at 31 December 2022.

Regulatory Penalty

On 11 August 2022, the Aged Care Quality and Safety Commission (ACQSC) applied regulatory penalties to Regis Port Coogee in the form of a Sanction and Notice to Agree (NTA). Regis has complied with all actions and requirements stipulated by the ACQSC. The Company incurred a one-off negative earnings impact of $1.3 million (including external advisor fees and additional staff expenses) for the period 11 August 2022 to 31 December 2022.

The Sanction expired on 10 February 2023.

Dividends

On 27 February 2023, the Board of Directors resolved to pay an interim dividend of 2.00 cents per ordinary share totalling $6.0 million (50% franked) for the half-year ended 31 December 2022, payable on 14 April 2023.

Subsequent Events

On 31 January 2023, Regis acquired a parcel of land in Carlingford, New South Wales, for approximately $15.0 million. The land is to be used for the purposes of residential aged care development (development approval in place for 110 beds).

Additionally, in January 2023, Regis' Belmore, New South Wales residential aged care home was closed. There is no material impact on the ongoing profitability of the Company as a result of the closure.

Outlook

Given the uncertainty over the financial impact of the reform program roll-out, the Board does not believe it prudent to put forward any earnings guidance at this stage.

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A teleconference and webcast will be held by Regis' Managing Director & CEO Dr Linda Mellors and CFO Mr Rick Rostolis at 10am AEDT. Dial-in or login registration details are as follows: https://www.regis.com.au/investor-information/forward-calendar/

This document was authorised for release to the ASX by the Board of Directors.

[1] Based on H1 FY23 average available operational places of 7,000 (H1 FY22: 7,104)

[2] Average AN-ACC per resident per day calculated from 1 October 2022 - 31 December 2022

[3] Non-IFRS financial information has been prepared in accordance with ASIC Regulatory Guide 230 - Disclosing non-IFRS financial information, issued in December 2011. Non-IFRS financial information, while not subject to audit or review, has been extracted from the Financial Report, which has been subject to review by the Company's external auditors. Underlying EBITDA is non-IFRS financial information and refers to earnings before interest, tax, depreciation and amortisation, excluding imputed income on RADs and Bonds, COVID-19 outbreak costs and other one-off items, and including operating lease expense. NPATA is non-IFRS financial information and refers to net profit after income tax before amortisation of operational places

[4] In response to the Australian Government's decision to deregulate operational places from 1 July 2024, Regis has reassessed the useful life of its operational places and commenced amortising the value of operational places from 1 October 2021 on a straight line basis over their remaining economic life to 30 June 2024 including the partial reversal of related deferred tax liability

[5] Includes Government funding received in advance for January 2023 of $44.0 million (H1 FY22: $40.1 million)

[6] StewartBrown Aged Care Sector Report - 3 months ended 30 September 2022

[7] The Department of Health and Aged Care Quarterly Financial Snapshot of the Aged Care Sector - Quarter 1 2022-23 - July to September 2022

[8] Includes $30.6 million of imputed income on RADs and Bonds (H1 FY22: $31.4 million)

[9] COPE indexation of 1.7% applicable under ACFI funding from 1 July 2022 - 30 September 2022