

**5 November 2014**

**Annual General Meeting - CEO's Address**  
**Andrew Sudholz**

Thank you Linda, and good afternoon everyone.

I would like to extend my own welcome to you, as new Japara Healthcare shareholders, at our inaugural Annual General Meeting.

The IPO was an important milestone for the business and I am excited by the business's prospects as it continues life in a listed environment.

Today I will take you through an operational overview of the Company, our financial performance for FY2014, the strategy and outlook for FY2015 and conclude with some brief remarks.

I will provide an update on how our business is performing and our outlook for FY15, including some detail on the progress of our growth strategy as we look to expand our capacity in anticipation of the growing needs of the community in years to come.

As Linda mentioned, there will be time for questions during the formal proceedings part of the meeting.

As many of you are new to our business, I want to spend a brief moment to provide a snapshot of our operations.

Japara is one of the largest residential aged care providers in Australia. With the acquisition of Whelan Care, which we completed on 31

October, we now provide care to over 2,900 residents across our portfolio of 39 facilities, in Victoria, South Australia, New South Wales and Tasmania.

The provision of high quality healthcare is at the absolute forefront of Japara's operating model. It represents our license to operate, and is the foundation of a sustainable residential aged care business that is able to meet the needs of the elderly community over the coming years.

Our consistent high quality of care is underpinned by significant and ongoing investment in the training and development of our facility managers and care-facing staff. As Linda mentioned, we have also made a considerable investment in the development of our specialist care capabilities, such as the Dementia Care Programme, which has been based on best practice in dementia care, and was introduced into some of our facilities during the year, and, importantly, has been very well received by our residents, their families, and our facility staff. This is enhanced by the rollout of the Diploma of Dementia Care, which will be offered to a number of our care-facing staff in FY15.

The health and safety of our residents and our employees continues to be a key area of focus for the business. Our workplace health and safety programme continues to benchmark well against national standards, and I am pleased to report that we are continuing to see a reduction of occupational injuries evidenced by a 75% reduction in LTIFR in FY14, as we have continued to invest in and refine this programme.

Our focus on delivering high standards of care is reflected in our strong accreditation history and high occupancy. All of our facilities continue to be fully compliant and accredited for the maximum allowable period of three years, with eight facilities receiving full reaccreditation in FY2014.

As Linda mentioned, we experienced some changes in the regulatory environment this year, which have been mainly positive for Japara and have created growth opportunities for the industry as we prepare to meet the demands of the ageing Australian population over the coming decade.

The major changes that have come through in the past few months are set out on this slide. Many of these changes were foreshadowed in the Prospectus, from the Significant Refurbishment Supplement, down to the DAP/RAD regime, and were part of the Government's "Living Longer, Living Better" aged care reforms which came into effect on 1 July. The cessation of the Dementia Supplement, the pending removal of the Payroll Supplement subject to Parliamentary approval, and the associated and offsetting changes in the ACFI funding rates were announced in May and June following our listing on the ASX.

Most of these are positive for Japara and open up a number of growth opportunities for the business, such as:

- Access to higher accommodation supplements for eligible residents in refurbished facilities. For us, this means we will be able to access a higher level of Government support. As we continue our brownfield and greenfield development strategy, our ability to access this funding support will increase.
- We now have a broader scope to set resident fees, both for premium accommodation and additional wellbeing and lifestyle services. This has provided us with the opportunity to introduce

our broad-ranging resident lifestyle programme, called Wellbeing Services, which we launched in September, which I will touch on in more detail a bit later in my presentation.

- Prior to these reforms we were unable to take RADs on high care beds or provide a suite of additional services. The removal of the distinction between High and Low Care places and the associated introduction of the DAP and RAD regime delivers the revenue and capital required to support our growth which we expect to realise from applying this regime to some 500 – 700 places across our portfolio over the next 3 years.

Obviously, some of the announced changes have provided some headwinds for the business, such as the removal of the Payroll and Dementia Supplements. However, we're confident that the impact of these will be mitigated, both through the offsetting changes to ACFI funding, which I touched on earlier, but also through a number of operational initiatives, including the Wellbeing Services program, which I will spend more time on later in my address.

To people who are unfamiliar with the industry, I understand that this looks like a lot of regulation and a lot of change. As a management team, we view regulation as a good thing, which provides a solid framework for the delivery of high quality aged care services across the industry.

Moreover as with any regulated Australian industry, we're very used to dealing with and responding to change. We've dealt with eight funding changes over the past decade. From our point of view, this is just part of

our normal operating environment and something that we have to be prepared for – it's just about being nimble and adaptable to ensure that the business is well placed to respond to the enhanced opportunities that regulatory change and consumer demand can bring.

I will now touch on our financial and operating performance for the past year.

Now, let me spend some time on this table which outlines our statutory results, because it can be a little bit confusing with the two time periods that we are referring to.

In our Prospectus, we included what we called a “statutory prospectus forecast” for the period from 1 May to 30 June 2014.

The Group was incorporated on 22 April 2014, which means that the statutory results required to be reported to the ASX reflect the period from 22 April to 30 June 2014, or nine more operating days than was contemplated in the Prospectus statutory forecast period.

Therefore, in order to provide a like-for-like comparison, we have provided a comparative result for the period from 1 May – 30 June 2014 which is comparable to the statutory forecast which was provided in the Prospectus.

You can see from this table that the Group delivered on its Prospectus Statutory forecast, which was a pleasing result.

You will notice that our reported net loss after tax of \$2.7 million was well ahead of our statutory Prospectus forecast loss of \$13.8 million. This was due to the treatment of IPO costs in the Prospectus forecast. On a like-for-like basis, before IPO costs, you can see that net profit after tax was in line with our expectations.

Moving onto the FY14 full year pro forma financials, pro forma revenue was \$245 million, which was in line with our Prospectus forecast. However, we were expecting a slight increase in revenue to offset additional wages and agency costs, which unfortunately didn't eventuate in the second half of FY14.

This resulted in pro forma EBITDA for the year of \$40 million, against a forecast of \$41.5 million for the business.

This year has been successful in building on the key components on our growth strategy, with our listing on the ASX in April supporting our ability to execute on the Group's expanded growth agenda.

We have put in place a solid platform for growth in FY15 – we're implementing and adapting to regulatory reform, we have the capital structure in place to support growth, including the \$95 million debt facility that we put in place in August, and the success of the three brownfield developments that came online in FY14 have outperformed our expectations. We now see greater opportunities from brownfield and greenfield developments than we have in the past.

As I've said previously, our growth strategy is focused on four main components:

- Organic revenue and earnings growth within the core business from new opportunities such as welling and lifestyle services as well as the DAP/RAD regime
- Capacity expansion through both brownfield and greenfield developments set to deliver 690 and 500 additional places respectively;
- Capacity expansion through selective acquisitions;

I want to now spend some more time on each of these, what's been delivered, and what's in the pipeline.

As many of you know, we completed three brownfield projects in FY14, at Millward, Mirridong and Albury, together providing 128 new places.

We've been very pleased with the results achieved with those developments, with occupancy ramping up faster than expected, and DAP and RAD values above our initial expectations.

We have two sites, Kelaston and Bayview, currently under construction which are on track to deliver an additional 60 operational places over the next 12 months.

We have a strong overall development pipeline, with 690 additional places to be delivered over the medium term.

Alongside our brownfield programme, we will also be pursuing capacity expansion through greenfield developments via which we plan to deliver an additional 500 places over the next 5 years.

We have already purchased two greenfield sites, in Launceston, Tasmania (75 places) and in Glen Waverley, Victoria (65 places) on which we plan to build state-of-the-art facilities.

We will continue to look for opportunities to enhance our portfolio with high quality sites in underserviced areas with attractive market dynamics.

Now onto acquisitions. In August we were very pleased to announce the acquisition of the Whelan Care portfolio for \$39.5 million, which provides the business with a strategic footprint in South Australia. The acquisition is aligned with our strategy to diversify nationally in markets where high demand for residential aged care services exists, and to pursue opportunities selectively where upside potential exists from the application of Japara Healthcare's business model to provide enhanced returns.

In terms of our broader acquisition strategy, the market is highly fragmented, and, as Linda noted, we're seeing more opportunities come to market as smaller and mid-size operators respond to regulatory change.



We will be assessing opportunities against our acquisition criteria, looking for opportunities where, ideally, there is scope to improve performance, through application of Japara's operating model, or through brownfield expansions. We'll be looking to fill out our portfolio network, in Victoria and in other states, focusing on underserved geographies where attractive aged care demand dynamics exist.

There are quite a number of acquisition opportunities in the market, including some that we do not find attractive. We are very selective in our acquisition approach and have passed on a number of assets where we don't see the value there for our shareholders, and we will continue with this disciplined investment approach as further opportunities are assessed.

I would like to provide a bit more detail on the Whelan acquisition, which was completed last week.

The Whelan portfolio is comprised of four facilities, delivering 258 additional places and 41 independent living apartments.

This includes one 69-place facility, in Trevu, which is currently under construction and is expected to come online in FY16. This will replace the 45-place facility in Willaston when it becomes operational, and we will see residents move across from Willaston to Trevu at that time.

As I mentioned previously, the purchase price of \$39.5 million was attributed to the assets we have noted on this slide. We expect that the RADs received from new residents at Trevu will provide approximately \$4 million in cash inflows, and see potential for further RAD uplift across the broader portfolio over the next three years, which will release capital for investment in other growth initiatives.

The net purchase cost for the aged care assets is \$34.2 million which we expect will be reduced by approximately \$5 million from the anticipated inflow of new RAD's at Trevu post completion.

In terms of earnings contribution, we expect EBITDA from the portfolio to be circa \$4 million plus in FY16 on an annualised basis once Trevu is fully operational.

In FY15, we expect the EBITDA contribution from Whelan post additional costs to be \$1.4 million.

The addition of Whelan provides a strong platform for growth in South Australia as we look to diversify operations outside of Victoria.

As I previously mentioned, we have a number of operational initiatives underway, to mitigate the impact of regulatory change on the business as we continue to work towards the delivery of our FY15 pro forma Prospectus forecast. These include:

- our ongoing resident reassessment programme, which ensures our government, or ACFI, funding is aligned with resident acuity levels as residents “age in place”, which, alongside the ACFI increases as part

of the replacement of the Workforce Compact and indexation, will help to deliver revenue benefits in FY15;

- the brownfield facilities delivered in FY14 are outperforming expectations and are expected to deliver a better than expected contribution this financial year;
- the roll-out of our resident experience programme, “Wellbeing Services” commenced in September with a pleasing result, in line with our expectations. We’re also accessing funding as planned from the Significant Refurbishment supplement, and are seeing DAP and RAD splits in line with expectations;
- the continued focus on efficient cost management, including a renewed focus on staffing costs and investment in a new IT-based workforce management system planned for implementation in FY15.

In summary, I am excited about Japara Healthcare’s growth prospects moving forward. We have established a robust pipeline of growth opportunities as we pursue investment in capacity expansion over the coming years.

As a well-capitalised and experienced operator, our ability to implement and respond to regulatory change has enabled the Group to capitalise on a number of growth opportunities this year.

As a result, I am pleased to provide FY15 EBITDA guidance of approximately \$50.3 million, including Whelan Care. Excluding Whelan, we are today reaffirming our FY15 pro forma prospectus EBITDA forecast of \$48.9 million.

We're also looking forward to paying our first dividend in FY15.

Thank you for your attention, and I will now hand the meeting back to Linda