Estia Health

MARKET UPDATE

6 October, 2016

Key points

• Strategic review of operations commenced with an emphasis on cost reductions and improved efficiencies

• 2017 revenue to date tracking to budget

• Revised guidance range of 2016/17 underlying EBITDA of $86 million to $90 million

• Non-core assets to be divested

• Organic led growth from quality core assets

• Final payment made to Kennedy family for Kennedy Health Care transaction

• Kennedy family to subscribe for up to $15 million of shares at DRP price

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Estia Health Limited (ASX: EHE) ("Estia" or the "Company") today announced that following the appointment of Norah Barlow as Acting CEO the Company was undertaking a detailed strategic review with an emphasis on cost reductions and improved efficiencies.

As part of that review, and as requested by the Board, the recently appointed senior management team was asked to undertake a detailed review of the previous underlying FY2017 EBITDA guidance provided to the market on 29 August 2016. That exercise has demonstrated that the fundamentals of the Company remain strong and revenue to date is currently tracking to budget. Unaudited management accounts show that Estia generated EBITDA of approximately $14.7 million in the first two months of the 2017 financial year.

However, the Company now expects underlying EBITDA for FY2017 will be between $86 million to $90 million. The principal contributors to the reduction from the previous guidance are:

- a lower projected occupancy growth rate resulting in a reduced contribution of approximately $5.5 million for FY2017; and
- a reappraisal of the Company's anticipated non-labour operating expenses in FY2017. After re-assessing the basis on which expense savings were assumed in the previous guidance, the Company now considers that at the current run rate its non-labour operating expenses in FY2017 will be approximately $11.7 million higher than originally forecast.

These reductions are before taking account of any mitigating steps available to the Company to address the occupancy growth rate and operating expenses during the

remainder of FY2017. Interest expense, depreciation and total capital expenditure on developments remain in line with the anticipated ranges disclosed in the Company's end of year results presentation on 29 August.

"We propose to change how we define underlying EBITDA in response to market feedback. From FY17 all items of a one off nature and gains or losses from acquisitions and divestments will be excluded from this calculation," Mrs Barlow said.

"Additionally, given that our strategy going forward will, for the foreseeable future, be based around organic growth and optimising the returns from our current suite of assets, a number of costs relating to acquisitions and integrations which were excluded from underlying EBITDA in FY2016 will be included in underlying EBITDA from FY2017.

"We have commenced a rigorous strategic review of our business and have already identified several non-core assets that we will be seeking to divest to help reduce costs and ensure we maintain a strong balance sheet.

"Estia has experienced a rapid period of growth from acquisitions since listing on ASX and the ongoing strategic review is intended to refine our strategy moving forward, based on our existing high quality portfolio of homes and consolidating them within our networks and systems.

"The strategic review will be focused on taking costs out of the business and improving margins further, but without compromising on our commitment to continue to deliver high quality aged care services to our residents.

"We have already initiated changes to Estia's executive team and we anticipate further changes in the coming weeks as we strengthen management so that they can concentrate on the efficient operation of our core businesses and integrate systems across the group. The former CFO is no longer working with the Company, while Steven Boggiano is continuing in his role as acting CFO.

"We have a stable capital structure and strong cash flows and maintain substantial head room under all our lending covenants, and our immediate focus remains on growing shareholder wealth and optimising value from our core assets.

"We are also continuing with the development of the Twin Waters and Kogarah care homes projects, which are expected to contribute to earnings in fiscal 2018.

"Occupancy levels are currently running at around a 93.3 per cent year to date average.

"Estia is working within the Living Longer, Living Better reforms by the Federal Government and our business model will leverage the services we provide as we implement new co-contribution revenue streams to help re-balance the reduced Government funding commitment."

Estia has also determined that it will no longer charge residents under the Asset Replacement Contribution because of legislative uncertainty.

The Company also confirmed today that it had paid the final deferred consideration instalment for the acquisition of Kennedy Health Care Group ("Kennedy"). Under the terms of the final instalment, the Kennedy family received $41 million in cash.

Immediately following this payment, Estia held cash of $11.7 million and had outstanding debt of $286.5 million, with remaining undrawn capacity under its debt facilities, which mature in December 2018, of $43.5 million.

The Kennedy family has agreed to subscribe for $15 million of ordinary shares at the price applying under Estia's Dividend Reinvestment Plan (DRP). The shares are expected to be issued shortly after determination of the DRP Price[1]. The subscription proceeds will be used for working capital purposes. The issue is within Estia's placement capacity and no shareholder approval is required.

The chairman of Estia Mr Pat Grier added that Estia will provide shareholders with an update on the ongoing strategic review, including capital management measures, at the Annual General Meeting to be held on 23 November, 2016.

The Company is also progressing the appointment of additional directors and the search for a permanent CEO.

The Board renewal follows the recent resignation of former Managing Director and CEO Mr Paul Gregersen and the resignations of Mr Peter Arvanitis on 31 August, 2016 and Mr Marcus Darville on 30 September, 2016.

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[1] The pricing period for the DRP commences on Friday 7 October and ends on Thursday 20 October.

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