



Macquarie Australia Conference

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JAPARA
HEALTHCARE



- Australian Residential Aged Care Sector Overview
 - Structural
 - Funding
 - Regulatory Environment
- Japara Healthcare's H1 Performance Recap
- Japara Healthcare's Strategy & Other Considerations



Australian Residential Aged Care Sector Overview



Australian Residential Aged Care - Structural

- Strong and increasing demand profile
 - Over 192,000 residents now
 - Government forecast plus 76,000 by 2026
 - ACFA estimates \$33bn of capital funding is required to meet growth and replace obsolete stock.¹
 - Supply likely to lag demand
- Barriers to entry are high
 - Financial – e.g. initial capital
 - Regulatory – e.g. approved provider status, licenses
- Entry to aged care is needs based (non-discretionary)
 - Average age of residents is approx. 85 - steadily increasing for the past five years
 - 24/7 care
- Highly fragmented sector – 972 providers in total operate 2,681 facilities
 - 57.1% owned by not-for-profit
 - Consolidation opportunities

Net new place additions over time ('000s)²



1. Aged Care Financing Authority – 2016 Report on the Funding and Financing of the Aged Care Industry

2. Macquarie Aged Care Sector Overview. April 2017

Australian Residential Aged Care – Funding

Care

Funding Type	Description	Funding	Cost
ACFI	<ul style="list-style-type: none">- Assisted Daily Living- Behavioural- Complex Health- Applies to all residents	Government or means tested	Max. \$214.06 per resident per day
Basic Daily Care Fee	<ul style="list-style-type: none">- Covers living costs such as meals, power and laundry- 85% of pension- Applies to all residents	Resident	\$49.07/day
Additional Services	<ul style="list-style-type: none">- Additional fees for other care or services above the assessed requirements- Typically non-concessional residents	Resident	Market rate. Typically \$25 - \$85/day

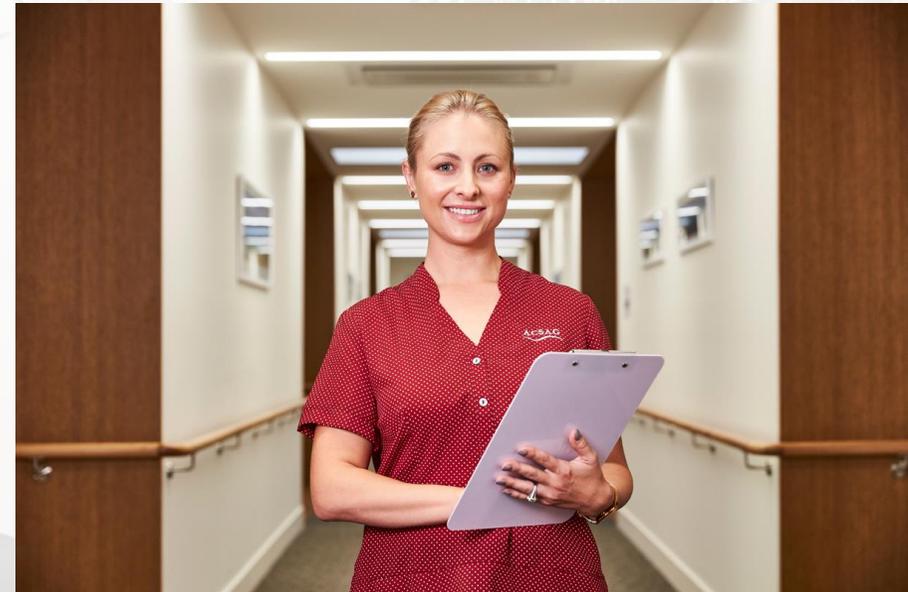
- Refundable Accommodation Deposit (RAD) - Interest Free Capital
 - Non-concessional residents
 - Bed contract value set by provider
(subject to \$550,000 cap - can be increased with Department approval)
- RADs - Fund expansion
 - Unique to the sector
 - Permitted uses include capital expenditure for residential care, refunds of RADs/bonds and repayment of debt incurred for a permitted use
- Original amount (less agreed deductions) ultimately refunded to resident's estate. Replaced with incoming RAD, typically at a higher amount
- Can elect instead to pay a Daily Accommodation Payment (DAP) or combination RAD/DAP. Resident's choice
- Accommodation Supplement - \$26.93 to \$55.09
 - Concessional residents
 - Used to cover repairs and maintenance capex

- Regulatory framework creates barriers to entry
- Ongoing reform aimed at improving resident service/choice and providers’ ability to respond thereto
- Government provides approx. 70% of sector revenue
- Cumulative Average Growth Rate of Government funding over fiscal 2008 to 2015 was 8.6%¹
- Government funding continues to increase and is forecast to grow at nearly 6% per annum

2016-17 Budget aged care expenditure estimates, \$billions ²					
	FY2016	FY2017	FY2018	FY2019	FY2020
Residential aged care services	10.695	11.319	11.919	12.600	13.469

1. Aged Care Financing Authority – 2016 Report on the Funding and Financing of the Aged Care Industry
 2. Deloitte Access Economics, Australia's aged care sector: economic contribution and future directions

- Recent Government initiated sector reviews
 - Aged Care Sector Committee. Aged Care Roadmap. May 2016
 - Aged Care Legislated Review. D Tune. August 2017
 - Alternative Aged Care Assessment Classification Systems and Funding Models. University of Wollongong. April 2017
 - Review of the current ACFI. Aged Care Solutions
 - ACFA Review of the Accommodation Bond Guarantee Scheme. Current
- Reform
 - ✓ Simplify current system
 - ✓ Increase consumer choice
 - Is creating uncertainty



Japara Healthcare FY17 H1 Performance Recap



Japara Healthcare's residential aged care portfolio

One of Australia's largest residential aged care providers, with a growing national footprint

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43
residential aged care facilities

Over
3,800
operational places

100%
accreditation record

Growing portfolio across
5
states

180
Independent Living Units

Over
5,200
employees

H1 FY17 – Financial highlights

- Strong Balance Sheet Underpins Growth Strategy
- Operating Model Consistently Generates Cash Flows From Both Operating And Capital Funding Sources



Total Revenue
\$178.5m
Up 14.5%
on pcp



EBITDA
\$29.1m
Up 3.6%
on pcp



Interim Dividend
5.50 cents
Fully Franked



EPS
5.50 cents



Conservative Capital Structure
Net bank debt \$7.8m



RAD Cash Flows Strong
\$29.0m

Development expenditure
\$23.0m

Maintenance capex
\$3.9m

- Track Record Of Strong Operating Performance Maintained



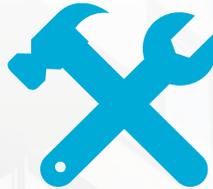
Brownfields developments

124 premium rooms delivered



Four new land purchases in FY17

445 new greenfield beds to be built



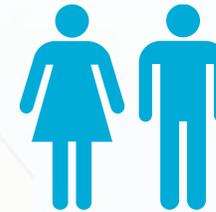
Significant refurbishments

13 facilities over next 2 years to provide in excess of \$4.0m EBITDA uplift



Care

100% accreditation record maintained



Occupancy

averaging 94.4%



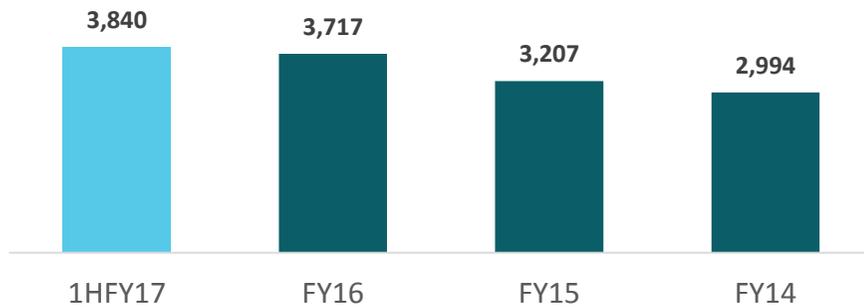
Profke Acquisition

H1 FY17 EBITDA of \$3.1m

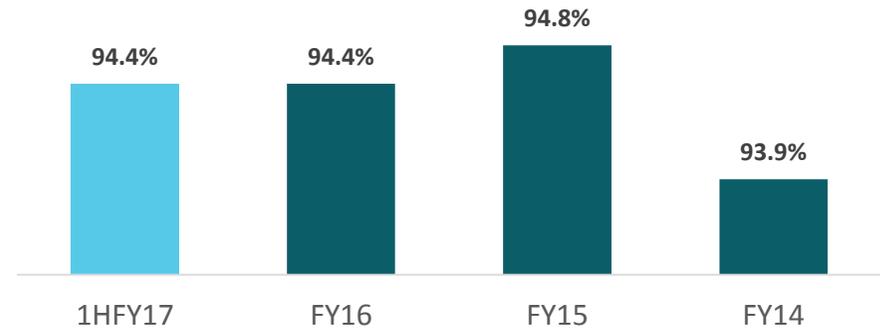
Expect recovery to FY16 level of earnings

Key operational metrics

Operational places



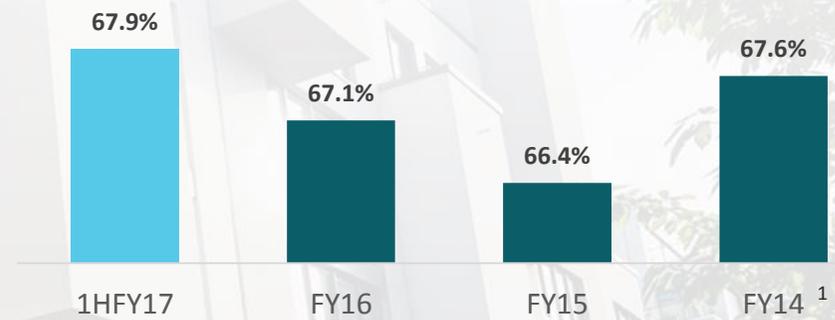
Average occupancy²



Average incoming bed contract price (\$'000)



Staff costs to revenue



1. Pro forma metrics. FY14

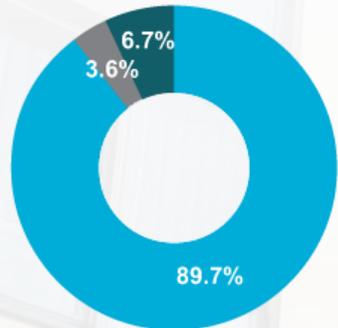
2. Average occupancy excludes facilities undergoing Brownfield developments and Profke

RAD:DAP mix – trend and projection

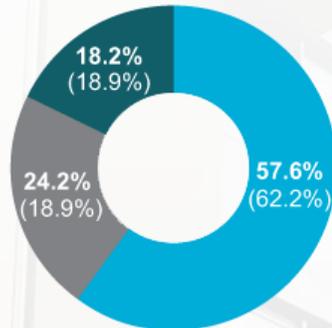
Resident accommodation payment trend provides appropriate balance between capital and income

- Preference of incoming residents post reform is relatively consistent
- Japara’s bank facilities, development returns and gearing policy determined cognisant of this trend

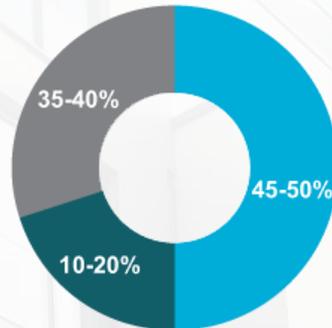
**Total Portfolio
Pre Reform June 2014**



**Total Portfolio
H1 FY17
(PCP in brackets)**

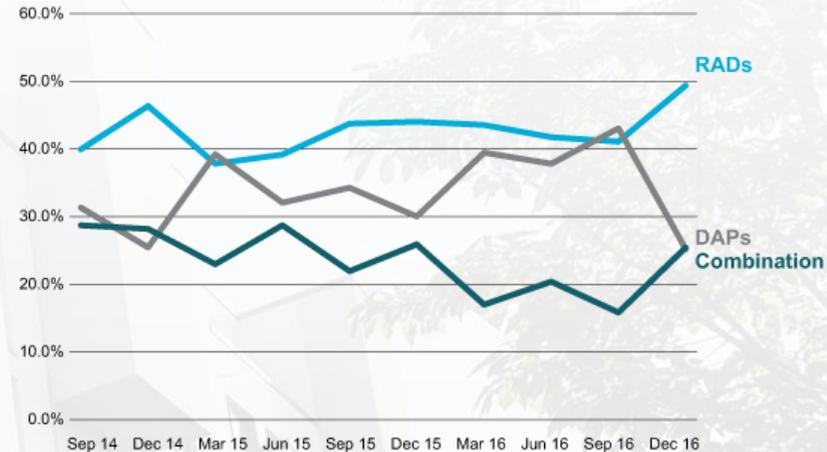


**Total Portfolio
Indicative Future**



● RADs ● DAPs ● Combination

Post Reform – profile of incoming residents by quarter



RADs typically represent a greater proportion on higher priced development beds

Japara Healthcare Strategy & Other Considerations



1. Overview

- **Strategy**

- Operational efficiency
- Greenfield developments
- Brownfield developments
- Significant refurbishments
- Acquisitions – Portfolio
- Acquisitions – Single facility

- **Other Considerations**

- Direct adjacencies
- Continuum of care

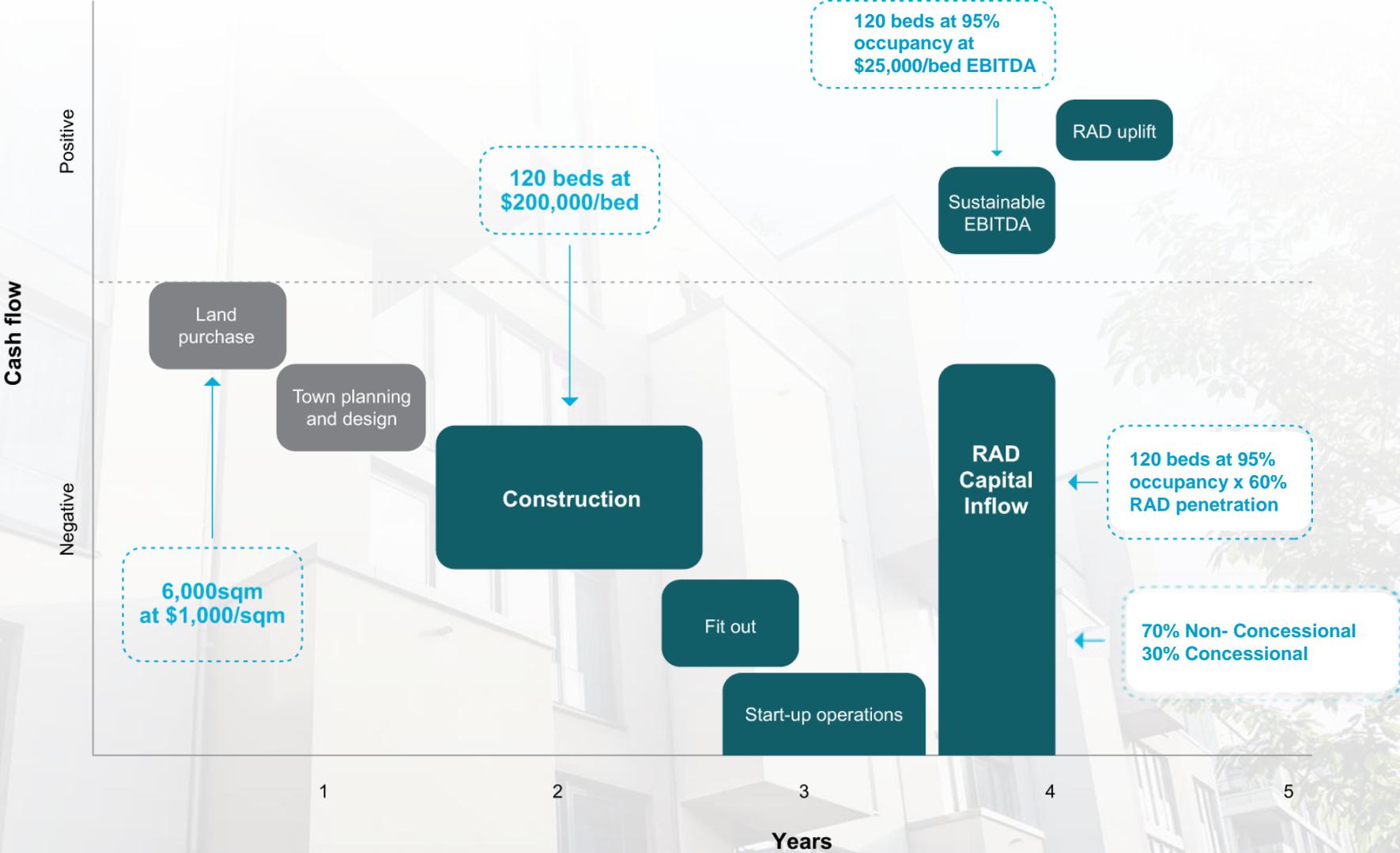


- **Occupancy** currently 94.4% - upside opportunity
- **Wages ratio** currently 68% - upside opportunity
- **Technological leverage**
 - ✓ Workforce management
 - ✓ ACFI/Occupancy BI
 - ✓ LiveHire trial
- Resident services
- Clinical care
- Employee self service



- Land secured
 - 10 of 11 Greenfield projects
 - Analysis identifies under bedded areas
- Greenfield projects
 - Additional 1,049 beds by FY20
 - Circa 900 bed licences owned or secured
 - 100% single bed profile
- Brownfield developments
 - 4 facilities completed during FY17
 - 3 facilities to be completed in FY18
- Significant Refurbishment program
 - 13 facilities to be completed by H1 FY19
 - Capex Circa \$15m; EBITDA uplift > \$4m





4. Acquisitions/Consolidation

- Portfolio acquisitions
 - E.g. Whelan (4 facilities, October 2014); Profke (4 facilities, December 2015)
- Single facility acquisitions
- Strict financial and non-financial assessment parameters
- Opportunity for improvement
 - Capital
 - Care model
 - Cost synergies
- Current market conditions – misalignment between vendor and purchaser expectations
- Private market pricing for smaller/mid size assets typically lower than scale transactions



- Direct Adjacencies
 - Examples
 - Physiotherapy
 - Podiatry
 - Funeral Services
 - Develop differentiated customer proposition
 - Diversifies revenue base
 - Potential to capture and internalise margin
 - Size of impact small without multiple transactions
- Home & Community Care
 - Why? – Government policy support and RAC occupancy be
 - Potential to partner with Not-For-Profit and/or develop organ
 - Limited number of scale operations
 - Opportunity for high quality, limited service offering
- Assisted Living
 - Real estate investment thematic and less regulatory complexity
 - Increased exposure to private pay market
 - Opportunity for 'ageing in place' offering



- Balance sheet strength supports growth strategy and provides diversified funding sources
- Land acquisitions and developments program have progressed very well in H1 FY17 and underpin medium term growth
- FY17 EBITDA is expected to grow at 7% to 10% on FY16
- Stronger second half is expected with brownfield developments admitting more residents, Profke facilities' earnings recovery and significantly lower restructuring and development start-up advertising costs



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