

12 December 2016

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Highlights

- Strategic and operational review finalised
- Underwritten entitlement offer of \$136.8 million announced (**Entitlement Offer**)
- Proceeds used to reduce core debt¹ and provide additional balance sheet strength and flexibility to execute Estia's preferred business strategy, including greenfield and brownfield development pipeline and significant refurbishment
- Pro-forma total net leverage reduced to 1.62x EBITDA
- No interim dividend to be paid for first half of FY17 and dividend policy revised to pay at least 70% of NPAT
- Dr Gary Weiss to succeed Mr Pat Grier as Estia Chairman

Strategic and operational review completed

Estia Health Limited (**Estia** or the **Company**) is pleased to announce the strategic and operational review, announced on 6 October 2016, is now finalised.

Following an update on the progress of the strategic and operational review provided at Estia's Annual General Meeting on 23 November 2016, a number of key initiatives have been implemented or are in the process of being actioned to ensure Estia continues to provide quality services to its residents and to maximise returns to its shareholders, including:

- Regeneration of leadership and management structure
- Enhanced operational structure
- Comprehensive operational, financial and business system review
- Reconfirmed greenfield and brownfield development pipeline and significant refurbishment opportunities
- Assessment of asset portfolio, which is now complete but will be reviewed on an ongoing basis

Estia also announced at the AGM that, as part of the strategic and operational review, it was in the process of assessing a range of options to facilitate a reduction in core debt¹ over the medium term. The range of options included:

- Alternative capital raising methods (including equity and hybrid capital raising and DRP underwriting)
- Amendments to dividend payout policy
- Review of development program and associated capex
- Sale and leaseback of facilities
- Going concern facility sales

Estia has concluded that in the current operating environment its optimal maximum leverage position should be in the range of 1.5x - 1.8x EBITDA and therefore is undertaking the following initiatives to facilitate a reduction in core debt over the medium term:

- An underwritten \$136.8 million accelerated non-renounceable entitlement offer

¹ Core debt refers to total debt less debt for development purposes

- No interim dividend to be paid in March 2017 in respect of the first half of FY17
- Thereafter, the expectation is that Estia's dividend policy will be to pay at least 70% of net profit after tax for the period to which the dividend relates²

Leverage position

The Entitlement Offer announced today reduces leverage in the business to within the revised target levels, while also enabling Estia to:

- Operate at all times within its revised lower leverage guidelines
- Continue to pursue its preferred business strategy including greenfield and brownfield development pipeline and significant refurbishment over the period to the end of FY18 and beyond
- Operate with a management team focused on optimising core business

The impact of today's announcement significantly improves Estia's net leverage and interest coverage ratios

- Core debt reduces to \$85.5 million and net debt reduces to \$143.0 million³
- Pro forma net leverage ratio (total) of 1.62x⁴ EBITDA
- Pro forma net leverage ratio for covenant purposes of 0.83x⁵ EBITDA (covenant limit of 3.50x)
- Pro forma interest coverage ratio of 26.73x EBITDA⁶

Operational initiatives

Estia's strategic and operational review has identified areas of recent business underperformance. Initiatives have been implemented or are in the process of being actioned to address these areas under the guidance of COO Ian Thorley and other senior management. These include:

- Replacing the existing operational matrix structure with a regional structure based around major states in which Estia operates
- Improving sales and client relations to drive occupancy uplift
- Rollout of home level profit and loss reporting from mid December 2016
- Improved roster to commence mid December 2016
- New Head of Quality role established with Quality Managers and Clinical Educators in each State
- Restructure of quality and operations teams to strengthen local and national support
- Deployment of market standard business systems across Estia's full asset portfolio
- Procurement process improvements and technological efficiencies
- Increasing penetration of additional service offerings to residents

Estia Chief Executive Officer, Mrs Norah Barlow, said "The initiatives we have announced today flow from a thorough and wide ranging strategic review and reflect a very prudent and flexible approach going forward.

² The payment of a dividend is at the discretion of the Directors and the level of dividend payout ratio may vary depending on a range of factors including general business and financial conditions; Estia's cash flows including consideration of net RAD cash flows; capital expenditure and working capital requirements; potential acquisition opportunities; taxation requirements; and other factors that the Directors consider relevant

³ Pro forma as at 31 October 2016

⁴ Pro forma as at 31 October 2016

⁵ Pro forma as at 31 October 2016. Net leverage ratio for covenant purposes is calculated per Estia's Syndicated Facility Agreement

⁶ Based on mid-point of FY17 guidance range (EBITDA: \$86m - \$90m). Reflects actual interest expense for the prior 12 month period less pro forma annualised interest savings based on a weighted average cost of debt for the prior 12 months of 3.44%

Today's announcements put Estia on a fresh footing with a strengthened balance sheet and, along with a new senior management team and corporate structure, provides the company with the ability to boost earnings and restore shareholder value.

We will continue with our greenfield and brownfield development pipeline and refurbishment opportunities program, but under a more conservative business plan and growth agenda.

We have also identified some non-core assets that will be divested and we will continue to review our portfolio to ensure that we have the right mix of assets going forward."

Earnings and dividend guidance

Estia reconfirms its FY17 EBITDA guidance range of \$86 – \$90 million. Guidance is re-affirmed based on year to date results and recently observed performance across key areas of the business, including occupancy, resident mix, average revenue rates, wage costs and non-wage costs. Over FY17 to 31 October 2016, Estia has generated EBITDA of \$28.5 million.

In light of the Entitlement Offer announced today, the Board has determined that no interim dividend will be paid in March 2017 in respect of the first half of FY17.

The Board has reviewed Estia's dividend policy in the context of its capital structure. The Board believes that a payout ratio of at least 70% of net profit after tax is appropriate in the context of the current operating environment as well as the expected future capital requirements of Estia's development and significant refurbishment pipeline⁷.

Board changes

Mr Pat Grier will retire as Estia Chairman on 31 December 2016 and will continue in a Non-Executive Director role. Current Estia director Dr Gary Weiss will replace Mr Grier as Chairman.

Mr Grier said that he believed that now was the right time for Estia to transition to a new chairman.

"Dr Weiss is a very experienced and widely respected businessman and I look forward to working closely with him and the Board as a non-executive director to drive the Estia business forward."

Entitlement Offer

Estia will undertake an underwritten 1-for-3 accelerated non-renounceable entitlement offer at \$2.10 per new share (**Offer Price**).

The Offer Price represents a discount of 17.2% to Estia's theoretical ex-rights price⁸ and a 21.6% discount to Estia's last closing price on 9 December 2016.

⁷ The payment of a dividend is at the discretion of the Directors and the level of dividend payout ratio may vary depending on a range of factors including general business and financial conditions; Estia's cash flows including consideration of net RAD cash flows; capital expenditure and working capital requirements; potential acquisition opportunities; taxation requirements; and other factors that the Directors consider relevant

⁸ Theoretical ex-rights price (TERP) is the theoretical price at which Estia shares should trade after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which Estia shares should trade immediately after the ex-date from the Entitlement Offer depends on many factors and may not equal TERP.

The Entitlement Offer is non-renounceable and rights will not be traded on the ASX or otherwise transferable. Eligible shareholders who do not take up their entitlement under the Entitlement Offer in full or in part, will not receive any value in respect of those entitlements not taken up.

The new shares issued under the Entitlement Offer will rank equally with existing Estia shares in all respects including future dividends.

Macquarie Capital (Australia) Limited (**Macquarie**) is lead manager and underwriter to the Entitlement Offer⁹.

Timetable

Event	Date
Entitlement Offer announcement	Monday, 12 December 2016
Institutional Entitlement Offer conducted	
Trading in Estia shares resumes on an ex-entitlement basis	Tuesday, 13 December 2016
Record date for determining entitlements for the Entitlement Offer	7:00pm Wednesday, 14 December 2016
Dispatch of Retail Information Booklet	Monday, 19 December 2016
Retail Entitlement Offer opens	
Settlement of Institutional Entitlement Offer	Tuesday, 20 December 2016
Allotment and normal trading of new shares issued under the Institutional Entitlement Offer	Wednesday, 21 December 2016
Retail Entitlement Offer closing date	Wednesday, 11 January 2017
Settlement of Retail Entitlement Offer	Wednesday, 18 January 2017
Allotment of new shares issued under the Retail Entitlement Offer	Thursday, 19 January 2017
Despatch of holding statements	
Normal trading of new shares issued under the Retail Entitlement Offer	Friday, 20 January 2017

⁹ The underwriter may terminate the underwriting agreement on the occurrence of specified events. Those events include where either of two shareholder groups (holding approximately 11% of Estia's shares in aggregate) who have provided binding commitments to subscribe for their full pro-rata entitlement fail to take up their full pro-rata entitlement in accordance with those commitments.

These dates are indicative and subject to change. All dates and times refer to Sydney, Australia time.

Shareholder enquiries

Eligible shareholders will be sent further details in relation to the Entitlement Offer via a Retail Information Booklet expected to be lodged with the ASX by 14 December 2016 and distributed to shareholders on 19 December 2016.

Further information in relation to the Entitlement Offer and the matters set out above, including important notices and key risks, are set out in the investor presentation lodged with ASX on 12 December 2016.

The outcome of the Institutional Entitlement Offer is expected to be announced to the market before commencement of normal trading on 13 December 2016. Pending this announcement, Estia shares have been placed in a trading halt. Trading in Estia shares is expected to resume on 13 December 2016.

Eligible retail shareholders who have any questions regarding the Retail Entitlement Offer should contact the Estia Health Limited Entitlement Offer Information Line on 1800 550 560 (within Australia) or on +61 1800 550 560 (outside Australia) from 8.30am to 5.30pm AEDT Monday to Friday during the Retail Entitlement Offer period.

In considering the information contained in this announcement, please also refer to the Important Information section of the Investor Presentation lodged with Australian Stock Exchange today.

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Media enquiries

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About Estia

Estia Health is one of the largest private providers of residential aged care services in Australia, operating 5,782 places (as at 30 June 2016) in 68 homes across New South Wales, Victoria, Queensland and South Australia.

Estia aims to provide its residents with the highest standards of aged care services in a supportive and caring environment and is focused on improving and expanding its portfolio to meet the growing demand for residential aged care services in Australia.

Estiahealth.com.au

Important Information

Determination of eligibility of investors for the purposes of the Institutional Entitlement Offer and Retail Entitlement Offer is determined by reference to a number of matters, including legal requirements and the discretion of Estia and Macquarie. Estia and Macquarie disclaim any liability in respect of the exercise or otherwise of that discretion, to the maximum extent permitted by law.

Forward-looking statements

This announcement contains a number of forward looking statements including indications of, and guidance on, future earnings and financial position and performance. Such forward looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements, opinions and estimates are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Estia Health Limited that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements and neither Estia Health Limited, nor any of its directors, employees, servants, advisers or agents assume any obligation to update such information. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. This announcement contains such statements that are subject to risk factors associated with the industries in which Estia Health Limited operates.

Disclaimer

To the maximum extent permitted by law, Macquarie and its related bodies corporate (as defined in the Corporations Act 2001 (Cth)), and the officers, directors, employees and agents of those entities, expressly disclaim all or any liability which may arise out of the provision to, or use by, any person of the information contained in this announcement and make no recommendation as to whether investors should participate in the offer of shares under the Entitlement Offer. Without limiting the foregoing, any forecast, budget, target, projection or other forward looking statement (projection) is provided for information purposes only and comprises Estia Health Limited's estimates of future prospects. No representation or warranty is given as to the accuracy, completeness or reasonableness of any such projection, or that any such projection will actually be met. As the achievement of any projection is dependent upon future events, the outcome of which cannot be assured, the actual results may vary materially from the projection.

