

18 November 2015

Annual General Meeting Addresses

Chairman's Address

Linda Bardo Nicholls AO

Good morning ladies and gentleman. My name is Linda Nicholls and I am your Chairman at Japara Healthcare. On behalf of the Board of Directors of Japara, I would like to welcome you all to our Annual General Meeting.

Before we begin the formal business of the meeting, could I please ask that you ensure that your mobile phone is turned off, or switched to silent.

Meeting opened

It is 10.30am, the appointed time for holding the meeting. I am advised that a quorum is present, so I therefore declare the 2015 Annual General Meeting of the members of Japara Healthcare Limited open.

Introductions

I would like to introduce you to your Board of Directors, as well as our Chief Financial Officer and Company Secretary.

David Blight, Non-Executive Director and Chair of the Remuneration and Nomination Committee;

Andrew Sudholz, our Chief Executive Officer and Managing Director;

Richard England, Non-Executive Director and Chair of the Audit, Risk and Compliance Committee;

JoAnne Stephenson, our newest Non Executive Director. JoAnne joined the Board in September and is up for election today so I will tell you more about her later in the agenda;

Kathryn Davies, our Company Secretary; and

Chris Price, our Chief Financial Officer. Chris joined Japara in June having most recently been Managing Director of the listed professional services firm, Crowe Horwath where he was CFO for seven years. Chris has also held senior commercial and accounting roles with PMP Limited and started his career at KPMG.

JoAnne and Chris both have experience and expertise that is well suited to Japara's strategic direction, and I am pleased to welcome them both to the business.

Tim Poole, who was a Non-Executive Director of Japara Healthcare through our IPO, retired from the Board in September. I would like to take this opportunity to acknowledge Tim's significant and valuable contribution to the Company during his time as a director.

Also present today are Darren Scammell and Ben Travers from KPMG. Darren is the Company's auditor and Ben is the Company's remuneration consultant. Both Darren and Ben will be available to take any questions relating to audit and remuneration during or after the meeting. Members of Japara's senior executive team are also in attendance today.

Industry context

The residential aged care sector continued to provide a dynamic operating environment in 2015.

Demand for aged care continues to grow as our population ages and complex health conditions like dementia become more prevalent. It is estimated that over 82,000 new places will be required in the next decade, and it is forecast that over \$33 billion of investment will be needed to deliver that capacity. The opportunities for sustained growth are real and realisable.

Like all healthcare, the aged care sector is highly regulated. As we discussed at our AGM last year, a number of new aged care reforms came into effect during the 2015 financial year. Looking back, we can now more clearly assess how this new regulation impacted the industry.

The key change last year was the introduction of the Federal Government's Living Longer Living Better reforms. These reforms introduced price transparency and for the first time, comparison of the price of every bed in every facility was publicly available and easily accessed. A maximum price was put on beds, capping existing stock and providing incentives for operators to refurbish and upgrade accommodation to higher standards. Japara benefited from these reforms. During the year we completed upgrading of three facilities comprising 141 new and refurbished places.

The reforms also eliminated the old system of bonding only certain aged care beds and introduced an accommodation charge on every place. This charge could be paid as either a daily payment (DAP) or refundable deposit (RAD).

At the outset no one knew for sure whether residents would choose the deposit or the daily payment. In any event the split is about 30% choosing to pay daily and 70% paying the refundable deposit. Both forms of payment are valuable to operators like Japara. The daily payment adds to revenue and therefore profitability while the refundable deposit can be used to finance development and acquisitions.

Restrictions have also been lifted to allow providers to offer residents a broader range of non-clinical services, such as entertainment, wellbeing and lifestyle options. These non-clinical services add to facility amenity, improve resident quality of life and build stronger aged care communities. Japara introduced Japara Signature Services on its premium places and this has been well received by residents.

In July last year, the Government announced the end of the Dementia Care Supplement which had been introduced in recognition of the higher levels of specialist nursing care needed by these residents. In January the Payroll Tax Supplement, which reduced the payroll tax payable for the several thousand nurses and carers that look after our residents, was removed.

Agile operators like Japara were able to better cope with the changes. However, it is noticeable that since these reforms came into effect, the number of aged care businesses coming onto the market

for sale has increased and accelerated the opportunities for our acquisition strategy. More about that later.

As in all heavily regulated industries including banking, telcos, utilities, insurance and healthcare, change is a constant presence in the aged care industry. We expect regulation in the aged care to continue to evolve. Japara has a strong track record of managing the business through an evolving regulatory environment, and we are focused on maintaining that agility to capitalise on growth opportunities in the years ahead.

As policy and regulation develop, we believe it is important for the industry to have a strong voice to support the sustainable delivery of high quality care for the aged. Japara is a member of the recently formed Aged Care Guild, an association of the nine largest aged care operators. The Guild and its members are committed to working on policy issues with Canberra to ensure policy initiatives deliver a strong future for care for the aged.

As you have heard me say many times, caring for the aged today is healthcare that demands serious nursing. At Japara our facilities are staffed and managed by registered nurses and healthcare professionals and we have qualified medical staff on site to look after patients with a range of complex health and medical needs. This means that the over 3,200 residents at Japara can be provided with many of the clinical services formerly found only in hospitals.

With that strong clinical healthcare focus in our business, we welcomed re-organisation of the Federal Aged Care portfolio announced in September. Aged Care was moved out of the Department of Social Services, and now sits in its own portfolio alongside Health, under the Minister for Health and Minister for Aged Care, Sussan Ley.

We believe this shift at the Federal level is a positive step that provides recognition of the essential role of aged care in health and creates an opportunity for more coordination between the Aged Care and Health portfolios in future. Watch this space.

Financial performance

Clearly it is pleasing to report that your company delivered profits ahead of the guidance that we provided at last year's AGM. With increases in occupancy and care fees and continued cost control, EBITDA for the 2015 year was \$50.6 million, up over 26% on the prior year, and net profit after tax was \$28.8 million.

100% of net profit after tax has been distributed to shareholders by way of total dividends of 11 cents per share for the year. Japara's aged care business is a strong generator of cash which supports high dividend pay out ratios. We intend to continue to pay up to 100% of profits as dividends to shareholders, and moving forward, frank those dividends to the maximum extent possible.

Growth strategy

The opportunities for growth in the aged care sector are real—over the next 10 years, 82,000 new beds and investment of over \$33bn are needed. Japara has clear strategies in place to realise these opportunities and deliver the benefits to shareholders. Our growth strategy has four pillars and I'd like to outline each briefly.

The first pillar of our strategy is to continue to grow and evolve our business to deliver the highest standard of care to our residents. We expect Japara to be the destination of choice for people when they move into residential aged care. Therefore, we need to be at the forefront of clinical and non-clinical care delivery in Australia.

Japara maintains very high standards of clinical care. While we are not required to do so, we ensure that we have qualified nursing staff rostered at each of our facilities, 24 hours a day, 7 days a week, to ensure our residents' clinical healthcare needs are addressed.

We are continuing to develop our specialist care capabilities for conditions like dementia. This will ensure we have both the knowledge and the infrastructure in place to care for the growing number of people with chronic diseases who are expected to enter residential aged care over the next decade.

While quality clinical care is paramount, we understand that our facilities are 'home' for our residents for many months if not years. Because 'home' is important we work to ensure our residents feel truly 'at home' at Japara.

Food is a central part of any household, and our homes are no exception. Japara kitchens use fresh vegetables in all of our meals. Some are picked straight from vegetable and herb gardens that are maintained by residents at several of our homes. We are sensitive to the cultural heritage of our residents, and offer dual menus in a number of facilities, including our facility in Springvale where we operate an Asian kitchen alongside a traditional Western menu.

All of our homes have resident pets or visiting pet programs, involving cats, dogs, birds, fish, and one facility even has chickens. These programs provide a strong sense of community in our homes and we will continue to develop and invest in similar programs in the years to come.

The second pillar of our growth strategy is investment in new beds through two development programs—brown-fields and green-fields.

Our 'brown-fields' program is the renovation and extension of facilities that Japara already owns. Our 'green-fields' program builds new homes on new sites that we have purchased.

We have made good progress on our brown-field development program this year. We completed the refurbishment of three facilities in 2015, and six further refurbishments are due for completion by the end of FY17. Brown-field developments generally take 1-2 years to complete.

Our green-field development program delivers new aged care facilities in areas where there are not enough beds to meet demand. Currently, Japara has three green-field projects in various stages of the development process, one in Tasmania and two in Victoria, and these are expected to come online over the next three to four years.

Greenfields can be expected to take four to five years from the 'idea stage' to when residents move in. We need to identify an attractive suburb, find and purchase a suitable development site, and go through the planning and permitting process, and acquire bed licenses all before construction even starts.

Clearly, it is not easy to be too prescriptive about the timing of the delivery of new green-field projects over the longer term. However, building new facilities in high demand areas remains a core part of our strategy, and we will continue to look for attractive opportunities to add to our green-field development pipeline in the year ahead.

The third pillar of our strategy is strategic acquisitions that add shareholder value. We look for opportunities to enhance our geographic network, both on a national and local scale, with a focus on areas which are currently underserved where we know there is strong demand.

Japara recently expanded its presence in South Australia with the acquisition of Whelan, and as many of you know, we also recently announced the purchase of the Profke residential aged care business which is our entry to the Queensland market and expands our presence in New South Wales.

Acquired facilities need to deliver a high quality care environment for residents, and while we have a preference for modern facilities, we will look at opportunities for refurbishment for facilities with good reputations for delivering exceptional care in attractive locations.

While as I mentioned, there has been an increase in the number of opportunities in the market over the past 12 months, and we continue to look at opportunities as they arise, we only pursue those acquisitions that deliver value to shareholders.

The fourth pillar of our strategy is strategic relationships. Over the next few years, we will be increasingly exploring opportunities to partner with other healthcare providers to the aged to support and develop our capability to deliver strong and integrated clinical healthcare to our residents.

We have conducted trial programs with hospitals where we have assisted with the transition of elderly patients leaving hospital into residential aged care facilities, and we have existing partnerships with specialists in dementia care to support our dementia care capabilities.

While it's still very early days, we believe there is a significant opportunity for us to explore more of these types of partnerships to unlock growth opportunities in the healthcare market for Japara, and to deliver superior integrated healthcare outcomes for our residents. I look forward to updating you on our progress.

In summary, Japara has a solid, four part strategy to capitalise on the very significant growth opportunities in the aged care sector, and we are confident that this will drive benefits for residents and attractive returns to shareholders in the years ahead.

Conclusion

Before I hand over to Andrew, I would like to thank my fellow Directors and the Senior Executive team for their support, hard work and dedication during the year.

Of course, Japara would not be able to deliver the high quality of care that we are known for without our nursing and care staff. Their focus, dedication and compassion are the true embodiment of our motto – “it's not aged care, it's caring for the aged”, and I would like to sincerely thank each and every one of them for their tireless work in caring for our residents.

I would also like to thank you, our shareholders, for your support of Japara Healthcare over the past twelve months, and for your attendance at this meeting today.

It is now my pleasure to introduce Japara's Managing Director, Andrew Sudholz, for his detailed operating and financial review. There will be time for questions during the formal proceedings of the meeting. Thank you.

Managing Director's Presentation

Andrew Sudholz

Thank you Linda, and good morning everyone.

Slide 7: Japara Healthcare's residential aged care portfolio

I would like to begin with a brief snapshot of our operations for those of you who are new to the business. Japara is one of Australia's largest residential aged care providers and we have a growing national footprint.

With the acquisition of Whelan Care, acquired in October last year, and the Profke residential aged care business that we expect to complete in December 2016, Japara will have a portfolio of 43 facilities across five states, with over 3,950 beds.

This is supported by a strong team of over 4,400 staff, the majority of whom are nurses and care staff working in our facilities and caring for our residents.

Slide 8: FY15 Result Summary

The business performed well in 2015, with the business focusing on the management of key operating drivers to deliver an EBITDA result ahead of the guidance that we provided at last year's AGM.

Revenue was up 14.8% to \$281.3 million, as a result of a number of factors.

We improved the average occupancy across our facilities to 94.6% over the year, which was an excellent result.

We also received a greater contribution from the government toward our residents' care requirements with increased resident acuity resulting in a 5.7% increase in the average ACFI rate for the period.

Revenue also benefited from an eight-month contribution from the Whelan care business and a full year contribution from the three facilities that underwent refurbishment in FY14.

We maintained strong cost discipline, delivering a 26.5% increase in EBITDA to \$50.6 million and an increase in our EBITDA margin to 18.0% from 16.3% in FY14. Net profit after tax for the year was \$28.8 million.

A small decline in the staff cost to revenue ratio was delivered in FY15. This reflected an improved revenue performance, combined with more efficient rostering and a decline in the use of agency staff. It does not reflect a change in our care delivery model.

While we remain disciplined on costs, we will not compromise on care. Delivering a high quality of care to our residents remains our foremost priority. We hold ourselves to a high standard of clinical governance, and continue to ensure our facilities are appropriately staffed with qualified nurses and carers to ensure residents' clinical and non-clinical care needs are taken care of.

The business continued to be highly cash generative and this supports our ability to pay attractive dividends to you as shareholders, which totalled 11 cents per share for the year.

RAD inflows increased significantly to \$77.3 million compared to only \$24.3 million in the 2014. This was mainly as a result of the aged care reforms that Linda spoke about which enabled us to charge RADs on a higher number of places.

Overall, we were pleased with the business' performance in FY15, and we are excited about continuing to execute on our growth strategy to deliver earnings growth in 2016.

Slide 9: Industry context

We have a very significant and exciting growth opportunity ahead. As Linda mentioned, demand for residential aged care places is growing, with the sector requiring over \$33 billion of investment over the next decade.

As we all know, Australia's population is ageing, and chronic disease is becoming more prevalent, both of which will drive significant growth in demand for residential aged care over the next decade.

There is an important role for well-capitalised private sector operators like Japara to play in delivering that capacity.

As we have already spoken about, the new aged care funding regime is supportive of our strategies to deliver that growth. As Linda mentioned, the daily payments provide us with revenue which support our profitability, and the refundable deposits provide us with finance to fund developments and acquisitions.

Speaking of acquisitions, there are a lot of operators in this market and we are seeing more and more opportunities to participate in sector consolidation as operators adjust to the new aged care reforms. We will continue to look at these as opportunities arise, but will only buy businesses that are consistent with our acquisition strategy.

Slide 10: Strategic priorities

The industry backdrop clearly provides us with real opportunities for strong and sustained growth. To capitalise on these, we have a four-pillared growth strategy which is based on:

- continuous improvement and growth of our existing business;
 - bringing new capacity online to meet the demands of our ageing population by building new facilities and refurbishing and extending our existing ones;
 - strategic and value-accretive acquisitions; and
 - exploring opportunities to partner with other specialist and healthcare operators to deliver enhanced care experiences and health outcomes to our residents.
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Importantly, the business is well positioned to fund this growth, with strong cash generation from the existing business, and from our new brownfield and greenfield development projects as they come online, supporting the delivery of our strong growth agenda.

I will now take you through each of the four pillars in more detail.

Slide 11: Enhance the existing portfolio

On our existing business, delivery of high quality care for our residents remains our core focus.

We remain committed to a high standard of clinical governance across our facilities. We ensure that there is a strong presence of qualified medical staff, including Registered and Enrolled Nurses, across all of our facilities, 24 hours a day, 7 days a week. This underpins the high quality of healthcare that we deliver to our residents.

We continue to focus on developing our specialised dementia care capabilities. As Linda mentioned, dementia is a growing issue in Australia with the incidence of dementia forecast to increase by one-third over the next decade.

Dementia is a condition that requires specialised and personalised care, and we have made investments in both our facilities and the training and development of our staff, to ensure the needs of all of our residents are met. As I mentioned last year, Japara offers formal Diploma-level training to our staff in caring for residents with dementia, and this program continued with ongoing success in 2015.

As part of our focus on quality, the business remains committed to compliance. Japara continued its 100% accreditation record with the full reaccreditation of 22 of our facilities in FY15.

Caring for our residents doesn't stop at addressing their clinical healthcare needs – we do our best to make sure that their wellbeing, lifestyle, and social needs are met as well.

As Linda touched on in her address, the industry reforms have allowed aged care operators to provide an enhanced range of non-clinical services to our residents. This has provided us with the opportunity to launch our resident wellbeing program, Japara Signature Services, in 2015.

The program offers residents more options around entertainment, dining, hairdressing and beauty services, enhancing the choices they have lifestyle and recreation. Japara Signature Services is being progressively rolled out across our facilities, and we expect it contribute to the revenue growth of the business over the next few years.

Slide 12: Brownfield and greenfield developments

The second pillar of our strategy is our developments, which comprises our brownfield and greenfield development programs.

The development of new capacity ensures the business is well positioned to capitalise on the growing demand for aged care.

We have established a dedicated in-house developments team that is responsible for identifying and purchasing future development sites, and managing the planning and construction of our projects.

The team does a lot of work to identify attractive sites to develop new facilities, and over the past year, we have bolstered our analytics and research capability as we continue to build our greenfield development pipeline.

Both our greenfield and brownfield programs have good momentum. We currently have 6 brownfield and 3 greenfield sites at different stages of development and construction, and are on track to deliver 805 additional places by the end of FY19.

We have also recently added to our greenfield pipeline, with the acquisition of new sites in Glen Waverley and Mount Waverley in Victoria. We will be looking to add further sites in FY16.

We have already secured over 75% of the licences we need to deliver our developments pipeline over the next four years. Japara received 465 places in the last ACAR round, which was one of the highest allocations to a single provider.

This was an excellent outcome that will underpin the delivery of our developments program over the coming years.

As mentioned earlier, the new aged care funding regime has provided operators with a supportive funding framework to be able to deliver new facilities for our ageing population. In fact, we expect the construction costs of the new facilities that we are building to be covered by the RADs we will receive from new residents as those facilities become operational.

Slide 13: Selective acquisitions

The third pillar of our strategy is acquisitions. As I mentioned earlier, there are a number of opportunities for Japara to participate in industry consolidation.

Japara has established a strong acquisition track record, and the business has delivered an average of more than 300 beds per year via acquisition over the past ten years.

We maintained a disciplined approach to acquisitions, and apply a number of criteria when assessing opportunities, including:

- A strong track record in accreditation, compliance and care delivery;
- Whether the acquisition allows us to expand our geographic footprint in areas with strong demand for aged care, or adds other strategic value to our portfolio;
- Whether there is an opportunity to improve the business under Japara's ownership; and
- Of course, all acquisitions must also deliver value for Japara shareholders.

Slide 14: Acquisition update

We have announced two acquisitions since our IPO, both of which comprise small multi-facility portfolios that provide Japara with a strategic platform in new geographic markets.

The Whelan acquisition, which I spoke about at last year's AGM, and our recently announced acquisition of Profke.

Profke is a residential aged care portfolio that comprises four aged care facilities in Noosa, Gympie, South West Rocks and Coffs Harbour. When this acquisition is completed in December 2015, this will

provide us with a presence in Queensland and expand our operations in New South Wales. The net acquisition price of the Profke acquisition is \$79.5 million.

The Whelan acquisition has enabled us to expand our presence in the South Australian market. The business has been successfully integrated and is on track to deliver EBITDA of over \$5 million in FY16, which was ahead of our initial expectations.

There are also opportunities for improvement at Profke, which we expect will deliver an earnings uplift within 18 months.

Both businesses are consistent with our acquisition strategy, proving entry into new markets, and presenting opportunities for earnings growth under Japara's ownership.

Including Profke, Japara will have delivered 845 places through acquisitions since our IPO. We will continue to assess further value accretive acquisition opportunities as they arise.

Slide 15: Strategic relationships

The fourth pillar of our strategy is strategic relationships.

As Linda mentioned in her address, the residential aged care sector is an important provider of healthcare services to older Australians.

Japara sits alongside other providers in the continuum of care services for the aged, providing personal care, nursing and healthcare services.

We believe there are opportunities to work with other healthcare providers that could deliver more integrated clinical care to our residents.

This could include working with chronic disease specialists to provide best in class integrated care. It may involve working closely with hospitals to ensure patients who no longer need hospital care and are more appropriately cared for in a residential aged care environment, are smoothly transitioned to Japara facilities.

We believe there is a significant opportunity out there for Japara. While it's still early days, this is an area that the business will be exploring more fully over the next few years.

Slide 16: FY16 outlook

Before I hand back to Linda, I would like to reaffirm our outlook for FY16. At the full year result, we provided guidance that the business would deliver earnings growth in FY16.

Year to date performance has been in line with our expectations, and there has been no change to the Company's outlook in that regard, aside from the additional contribution from Profke once that acquisition has completed, which is currently scheduled for December.

Profke is forecast to contribute \$3.5 to \$4 million in EBITDA in FY16. Given the anticipated completion timing, this will be predominantly weighted to the second half.

In conclusion, we were pleased with the performance of the business in FY15. We have built a solid platform for growth, and we have an exciting growth agenda ahead of us.

I would like to thank the Japara management team and importantly all of our team who deliver care to our resident day in and day out for their hard work during the year.

I would also like to thank you for your support and your attention today. I will now open the floor for any questions. Thank you.

