

ASX Announcement

5 November 2020

Estia Health – FY 21 First Quarter Results Trading Update

Estia Health Ltd (**ASX: EHE**) (Estia, the Company or the Group) provides the following update on its trading performance for the first Quarter of FY21 ending 30 September 2020 (the “Quarter”).

The information provided in this update is based on internal management accounts and has not been audited. This Trading Update should be read in conjunction with the Chairman and CEO 2020 AGM Address.

Given the degree of uncertainty and unpredictability of COVID-19 related outbreaks at community and individual facility level, the results reported for the Quarter cannot be regarded as forming a reliable indicator of future operational or financial performance until such time as external circumstances stabilise in relation to COVID-19.

Also, future financial performance will be highly impacted by any Government response to future funding and financing needs of the sector prior, or subsequent, to any recommendations of the Royal Commission into Aged Care Quality and Safety which is expected to report in February 2021.

The financial performance of the Group in the Quarter has been presented in this Trading Update in a format to allow the extent of the COVID-19 pandemic to be fully understood both in the State of Victoria, where the impact on all sectors of the community and economy has been severe during the second wave, and in other States which have been impacted to a lesser extent.

Outside of Victoria, occupancy within the Group’s homes averaged 93.7% during the Quarter and spot occupancy at 31 October (excluding Victoria) was 93.2%. In Victoria average occupancy during the Quarter was 86.8% and spot occupancy was 83.2% at 31 October 2020. Total Group occupancy averaged 91.3% during the Quarter and spot occupancy was 89.7% at 31 October 2020.

Total revenues for the Quarter were \$158.9m, including \$0.8m of Temporary Funding and \$10.9m of imputed DAP revenue on RAD balances in accordance with AASB 16.

The Group has incurred incremental employee costs due to the impact of COVID-19 of approximately \$6.0m in the Quarter, comprising \$4.4m in Victoria and \$1.6m in other States. The majority of the costs were incurred in managing the outbreaks in metropolitan Melbourne at the height of the second wave in the Group’s homes at Ardeer, Heidelberg West, Keysborough and Keilor Downs. The Group has also incurred and continues to incur costs associated with additional Resident Liaison Officers and Infection Prevention Control supervision and training at all homes.

The Group has incurred incremental non-employee costs due to the impact of COVID-19 of approximately \$6.2m in the Quarter, comprising \$3.6m in Victoria and \$2.6m in other States. The majority of the costs relate to Personal Protective Equipment (“PPE”), cleaning and waste disposal.

Net RAD flows in the Quarter have been largely unaffected by the pandemic. The balance of outstanding RADs and Bonds was \$840.6m at 31 October 2020, an increase of \$4.3m since 30 June 2020. Probate liability has decreased by \$9.2m to \$90.7m from 30 June 2020 to 31 October 2020. Net debt at 31 October was \$114.5m with available liquidity headroom of \$211.2m under the Group’s syndicated loan facility.

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Financial Performance

Unaudited Management Accounts for the 3 months ended 30th September 2020

Post-AASB 16 Basis

	Group	Victoria	Other States
Available Bed Days	568,744	199,916	368,828
Occupied Bed Days	519,134	173,584	345,550
Average Occupancy during period	91.3%	86.8%	93.7%
Spot occupancy 31/10	89.7%	83.2%	93.2%
	\$'000	\$'000	\$'000
Revenue			
Govt	110,980	37,695	73,285
Resident	36,255	10,694	25,561
Temporary Funding	783	277	506
AASB16 Imputed DAP revenue	10,838	3,181	7,657
Total	158,856	51,847	107,009
Staff Costs*			
Recurring	105,328	36,979	68,349
COVID-19 related	5,972	4,394	1,578
Total	111,300	41,373	69,927
Non-Staff Costs*			
Recurring	23,298	8,364	14,934
COVID-19 related	6,259	3,627	2,632
Total	29,557	11,991	17,566
EBITDA including AASB 16 Imputed DAP Revenue	17,999		
Depreciation	10,058		
Loss/(profit) on asset sales	8		
Finance Costs	1,599		
Imputed RAD/DAP Finance Costs	10,838		
EBT	(4,504)		

Note: EBITDA excluding AASB 16 Imputed DAP Revenue **7,161**

*Staff and Non-Staff Costs include allocated central costs

Key Operating Statistics

Revenue - excluding temporary funding & AASB 16 Imputed DAP Revenue

Government Revenue Per Occupied Bed Day	213.8	217.2	212.1
Resident Revenue Per Occupied Bed Day	69.8	61.6	74.0
Total	283.6	278.8	286.1

Staff Costs Per Available Bed Day

Recurring	185.2	185.0	185.3
COVID-19 related	10.5	22.0	4.3
Total	195.7	207.0	189.6

Non-Staff Costs Per Available Bed Day

Recurring	41.0	41.8	40.5
COVID-19 related	11.0	18.1	7.1
Total	52.0	60.0	47.6

Total Costs per Available Bed Day

Recurring	226.2	226.8	225.8
COVID-19 related	21.5	40.1	11.4
Total	247.7	266.9	237.2

EBITDA is categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 - Disclosing non-IFRS Financial Information, issued in December 2011, and is presented to assist in providing a better understanding of the financial performance of the Group. EBITDA is a measure consisting of earnings before interest, tax, depreciation, amortisation and impairment expenses and the gain/loss on sale of assets held for sale.

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Revenues

Revenues were impacted by the decline in occupancy experienced in Victoria. In addition, the Group took the decision to cease resident billings at a number of homes during COVID-19 outbreaks in Victoria, and ceased Additional Services billings at all homes in Victoria for 3 months as a result of limitations on the ability to deliver those services during the State-wide lockdown. All homes in Victoria are now billing residents as normal.

Non-recurring funding received in the Quarter was \$0.8m arising from the additional 1.2% care subsidy which was paid from 1 March to 31 August 2020. Additional COVID-19 funding of \$6.1m was received on 7 October 2020, based on a payment of \$975 or \$1,435 per resident, depending on home location.

Government Grants for COVID-19 Related Costs

One COVID-19 related grant application of \$25,000 was made and received in the Quarter which related to the costs of responding to a single infection at the Group's Tuncurry home in April 2020. The Group is in the process of submitting applications to the Federal Government for COVID-19 grants relating to the incurrence of COVID-19 specific costs. These applications, which are currently expected to total approximately \$7.0m relating to the period to 31 October 2020, are subject to independent audit. Grant schemes remain open for further claims if relevant incremental COVID-19 related costs are incurred in coming months. The Group will provide an update on the status of these applications at the announcement of results for the half year to 31 December 2020. There are no grants available for lost revenues arising from reduced occupancy as a result of COVID-19 related events. At this stage the Group does not anticipate recovering any revenue losses under the terms of its business interruption insurance policies.

COVID-19 Related Incremental Costs

The Group has incurred total incremental costs as a result of the COVID-19 pandemic of approximately \$12.2m in the Quarter which are explained in more detail below. Some of these costs are eligible for the grant claims referred to in the previous section.

Staff Costs

Increased COVID-19 related staff costs in the Quarter of \$6.0m arose from multiple sources, totalling \$4.4m in Victoria and \$1.6m in other States.

Costs in Victoria included:

- Quarantine and Pandemic Leave
- Increased agency, wages supplement and "surge" workforce costs
- Costs of Resident Liaison Staff assisting with family communications and engagement
- Additional Infection Prevention Control staff assisting with active training, monitoring and assistance
- Costs associated with additional support staff transferred from Queensland and NSW

Most of these costs were incurred in managing the outbreaks at Ardeer, Heidelberg West, Keysborough and Keilor Downs.

Costs outside Victoria included:

- Quarantine Leave
- Costs of Resident Liaison Staff assisting with family communications and engagement
- Additional Infection Prevention Control staff assisting with active training, monitoring and assistance

The costs of additional Infection Prevention Control and Resident Liaison Staff are expected to continue across all States until at least 31 December 2020 or beyond.

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Non-Staff Costs

Incremental COVID-19 related non-staff costs in the Quarter were \$6.2m, totalling \$3.6m in Victoria and \$2.6m in other States. These costs were primarily in relation to PPE, cleaning and waste disposal with the majority of the costs in Victoria relating to managing the outbreaks at Ardeer, Heidelberg West, Keysborough and Keilor Downs.

In addition, at 30 September 2020 the Group had PPE inventory carried at a historic cost value of \$4.2m.

RADs

RAD and bond balances at 31 October were \$840.6m, an increase of \$4.3m since 30 June 2020. RAD and bond balances in Victoria were \$239.7m, a fall of \$5.4m since 30 June 2020. Probate liability at 31 October 2020 was \$90.7m, \$9.2m lower than at 30 June 2020.

Net Debt & Banking Covenants

Net bank debt at 31 October was \$114.5m, an increase of \$16.3m since 30 June 2020. This movement includes the settlement of COVID-19 related tax liability deferrals from 30 June 2020 of \$18.2m. The Group remains in compliance with the covenants applying to its \$330m syndicated financing facility, which is not due to expire until November 2022.

Asset Sales

The previously announced Mona Vale sale completed on 4 November 2020 with the remaining proceeds of \$9.9m received delivering a pre-tax profit of approximately \$7.8m.

Development options for land at Crown Street, Wollongong were re-assessed in the Quarter and the decision was made to offer the site for sale. A contract for sale for \$3.8m was executed in October 2020, a non-refundable deposit of \$0.4m was received and completion is set for December 2020. The sale is expected to yield a pre-tax profit of approximately \$0.4m

Developments

The new 105 bed home at Blakehurst (NSW) is on schedule to open in February 2021.

Outlook

Across all its homes, the Group continues to work closely with each State's Public Health Unit, the Commonwealth Department of Health and the Aged Care Quality and Safety Commission to manage and monitor residents' and staff health, safety and well-being, including following guidelines and directions on restrictions on visitors, employees, hospital transfers of residents on a case-by-case basis and the process for ongoing regular testing. The Group's prime focus will continue to be on the safety and well-being of residents and staff.

The scale and duration of the COVID-19 pandemic remain extremely uncertain and the Group is not able to quantify with any degree of certainty at this stage the expected future financial impact of the enduring pandemic, including the impact on revenues, costs or funding support from the Government by way of increased subsidies or grants.

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Approved for release by the Board of Directors of Estia Health Limited

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Further inquiries:

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