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ASX Announcement

03 November 2022

2022 Annual General Meeting – Chair & CEO Addresses Including a Trading Update

Estia Health Limited (**Estia Health**) (ASX:EHE) provides the attached Chair's Address and CEO's Address to be delivered at today's Annual General Meeting commencing at 9.00 am AEDT. A Trading Update is included in these addresses.

Approved for release by the Chairman and Chief Executive Officer of Estia Health Limited.

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Further Enquiries:

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Chairman's Address to the AGM 3 November 2022

On behalf of your Board of Directors, I'd like to welcome you to the Estia Health 2022 Annual General Meeting.

While the 2022 financial year was another challenging period, our strong culture, focus on governance and care, and our organisation's leadership, has enabled us to navigate the demands that we faced. Throughout this period our key focus continued to be the care, wellbeing, and safety of the 8,000 elderly and vulnerable who place their trust in us each year, and equally importantly, the 7,500 dedicated employees who make up the Estia Health family.

COVID-19 Pandemic

The COVID-19 pandemic continued to acutely impact the sector for the majority of FY22 and created anxiety for our residents, their relatives and our employees, all of whom have displayed remarkable resilience in working collaboratively to support each other, for which we are grateful.

At our Annual General Meeting last year, following the passing of the Delta variant wave in July and August 2021, the indications in the community were that the worst of the pandemic was behind us. Governments were adjusting health settings and the operational impact on the homes was lessening.

Sadly, the emergence of the Omicron variant, which then accelerated through Australia and the aged care sector from late 2021, caused immense strain on State and Federal health systems, which were stretched to breaking point with the collapse of the PCR testing regime and supply chains, which affected the availability of PPE and rapid antigen tests.

The Residential Aged Care Sector was particularly affected with thousands of homes, residents and staff impacted until the wave began to ease in February. Although many of Estia Health's homes experienced outbreaks, our vaccination programs, the availability of anti-viral medications and other infection prevention and control measures assisted in lowering the severity of illness, shortening recovery periods and decreasing mortality rates.

We expect the impact of COVID-19 to be significantly reduced in FY23 but remain vigilant and are committed to ensuring our management strategies and practices reflect the underlying risk in order to support our residents and employees in remaining safe.

While we appreciate that the Government have undertaken to reimburse providers for the direct costs of outbreaks, the reimbursement of costs incurred by the Group in FY22, along with the rest of the sector, has been delayed far beyond the timeframes communicated by Government. As a result, the Financial Performance of the Group in FY22 was once again severely impacted by the pandemic.

Sean will provide a further update on COVID-19 grants later in the meeting.

Financial Performance

Our net loss after tax of $52.4 million, compared to a profit after tax in FY21 of $5.6 million, has been particularly impacted by the first year of the bed licence amortisation charge of $42.7 million after tax resulting from the abolition of the restricted bed licencing regime, a change which the Group fully supports.

Our Profit After Tax before this amortisation charge, referred to as NPATA, was a loss of $9.6 million, primarily due to COVID-19 incremental costs of $50.4 million, which were only partially offset by the small number of grants confirmed by the end of FY22, with a total value received of $7.1 million. Grant applications submitted and pending review and approval by Government, which relate to costs incurred during FY22, totalled $29.3 million as of 23 August 2022, but could not be recognised as income of the period.

A speedier and more comprehensive resolution of costs appropriately incurred by providers in preventing and responding to COVID-19 is required.

Notwithstanding these pressures, the Group remains in a sound financial position, with net bank debt of $79.6 million at year end, with total debt facilities of $330 million, representing significant undrawn capacity.

As a result of the financial performance caused by COVID-19 in the second half of FY22, the directors determined that there would be no final dividend declared and accordingly the fully franked interim dividend of 2.35 cents remained the full dividend distributed for the year. Our intention remains, subject to conditions prevailing at the time, for dividend distributions to remain within our existing guidelines of 70-100% of NPATA.

Transition and Succession

During the last 12 months, we have seen Board renewal and management succession, with several key changes previously announced.

In March, the Hon Warwick L Smith AO, resigned as a non-executive Director of the Company. During his almost five-year tenure, Warwick made a significant contribution to the Group as Chair of the Property and Investment Committee, as well as a member of the Audit Committee and the Royal Commission and Regulatory Committee.

On 1 September we welcomed Professor Simon Willcock as a non-executive Director, following his ongoing involvement as the independent chair of Estia Health's Clinical Governance Committee, a role he had held since 2019. Simon's extensive professional and academic experience will further strengthen our capability in the critical area of clinical governance and best practice resident care.

Former Chief Executive Officer and Managing Director, Ian Thorley, retired in July 2022 after joining Estia Health in 2016 as Chief Operating Officer. Ian served in the role of Chief Executive Officer and Managing Director of Estia Health since October 2018. The Board is grateful for the incredible contribution Ian delivered during his tenure with the Group, including successfully guiding the Group through the significant challenges presented by the COVID-19 pandemic, the aged care Royal Commission and the ongoing operational and financial pressures facing Australia's aged care sector.

Following Ian's retirement, the Board was delighted to appoint Sean Bilton, former Chief Operating Officer and Deputy CEO, as our new Chief Executive Officer and Managing Director. Sean has almost two decades of experience in healthcare and finance prior to joining the Group in October 2018 and his appointment has ensured a seamless transition.

Stable leadership, smooth transition and renewal with such high calibre and credentialled leaders at board and executive level is critical to the enduring success of the Group, particularly during a period of unprecedented challenge and will serve the Company well in the future.

I would like to particularly acknowledge the resilience, dedication and empathy shown by my Board colleagues and the entire executive leadership team over the past 2 years. COVID-19 and the pace of reform following the Royal Commission and change of Government have had an enormous impact on the aged care environment and these traits in our leadership team will stand Estia Health in good stead as the sector returns to more normal operating conditions.

Governance

Estia Health is committed to a robust and effective corporate governance framework which underpins our management approach and supports the organisation in creating value. Our approach to corporate governance is set out on our website, including our annual Corporate Governance Statement and key Governance Policies. Our care model is underpinned by our clinical governance framework, which is vital given the high care needs of our residents, including those with a diagnosis of dementia.

Our Clinical Governance Committee has been independently chaired by Professor Simon Willcock, who, as I said earlier, has now joined the Company's board as a non-executive director.

Our sustainability strategy showcases the Group's commitment to environmental, social and governance issues. We believe that integrating sustainability into our overall strategy, procedures and practices is imperative to creating value for all stakeholders. Our Modern Slavery Statement highlights our commitment and efforts to support the United Nations goals of eradicating forced labour, child labour, modern slavery and human trafficking.

Diversity plays a key role in fostering compassionate and welcoming communities. In line with industry norms, our overall workforce is predominantly female. Our commitment to diversity is demonstrated in the elimination of any material gender pay gap and the strong representation of females in senior management roles – 56% in the reporting period.

I am pleased to report that our Non-executive Directors and Executive both reflect gender parity.

Our comprehensive financial reporting, provision of information and transparency of performance to the investor community continues to lead the sector.

Remuneration & Workforce

The Company's remuneration framework, policies and FY22 remuneration outcomes, as set out in the Remuneration Report, continue to be focused on achieving an alignment between resident, shareholder and employee interests, with a resident focused quality performance 'gateway' remaining a pre-determining factor to the award and payment of short-term incentive entitlements, irrespective of operational and financial performance.

With recruitment hampered by reduced immigration and competition from the broader economy, the Group implemented additional strategies to attract and retain staff and have invested in increased training and development programs, career pathways, a sector leading graduate nurse program and more broadly in recruitment strategies, systems and resources.

Reform

The sector has faced a high degree of uncertainty in recent years following on from the Royal Commission, which was called more than four years ago but only reported its final findings in March 2021. The majority of the 148 recommendations were accepted by the former and current Government and the current reform agenda very much reflects the Royal Commission's recommendations.

We remain highly supportive of the reform agenda, however the breadth and speed of the program is creating pressure on the sector.

Large providers, like Estia Health, are better placed than most in the sector, which remains highly fragmented, to meet the required timeframes and adapt their market offerings. We consider it likely that the reforms will lead to further sector exits and home closures.

We see the role of the newly expanded Independent Hospital and Aged Care Pricing Authority (IHACPA) as being the single most important reform to ensure the sustainability of the sector and establishing a reasonable margin to sustain and encourage new capacity. The Authority recently released its first consultation paper to which we have made a submission in support of its far-reaching agenda.

IHACPA will have responsibility from July 2023 for making recommendations to Government in relation to the costs of providing care, which will replace the current system, which has traditionally delivered increases in funding below the level of input cost inflation.

Whilst responsibility will still lie with Government to implement funding outcomes that reflect IHACPA recommendations, we believe the framework is now in place to end historic margin erosion and support:

- the provision of services which deliver good resident outcomes;
- the financial viability of efficient providers; and
- investment returns that are sufficient to attract the capital required to meet the increase in expected demand and quality.

Capital Management

Estia Health is well capitalised as a result of our disciplined and prudent approach to the operation of our business and the preservation of capital during the challenging and uncertain times over the last few years.

At last year's AGM we commenced an on-market Share Buy-Back as part of the Company's capital management strategy and reflecting the Board's view of the inherent value of the Company's shares. Operating within ASX guidelines, we were only able to acquire 3.6 million shares at a cost of $8 million.

While uncertainties remain, we retain confidence in the ability of high-quality homes with modern amenities and efficiencies to generate acceptable returns ahead of the sector average, underpinned by sustainable RAD cash flows to reduce the level of invested capital.

To that end, we committed last week to the investment of ~$62m of cash to increase the Group's capacity by more than 400 high-quality, single-ensuite rooms in four homes that align closely with our current operating clusters.

The acquisition is expected to be EPS accretive to FY23 earnings and will be funded from the Group's existing debt facilities. Net Debt levels are not expected to exceed the target range of 1.5x-1.9x EBITDA as a result of the acquisitions.

Subject to prevailing circumstances at the time, the Board anticipates that future dividends will be consistent with its objective of distributing 70-100% of NPATA as fully franked dividends.

The Company's current on-market buy-back is due to complete on 11 November 2022. The Board will consider whether to continue the buy-back after the H1 FY23 financial results are released in February 2023.

Conclusion

Our financial and operational results for FY22 reflected the challenging market and operating conditions, not least of which was the ongoing COVID-19 pandemic. As a result, we have remained focused on keeping our residents and employees safe and to continue to advocate for a sustainable aged care sector which will meet the expectations of current and future generations.

Our Board of Directors and leadership team are confident we have the operational capabilities and financial capacity to deliver on our ambition to respond to the projected increase in demand for residential aged care into the future and further develop our service offering to ensure the sector continues to build trust with our varied stakeholders.

In handing now to our CEO, Sean Bilton, I would like to again acknowledge and thank our employees, residents and families. Their resilience, understanding and commitment has been extraordinary and enabled Estia Health to continue to move forward in difficult circumstances.

CEO's Address to the AGM 3 November 2022

Good morning.

As Gary has said, the 2022 financial year was another difficult period for the aged care sector, with the continued impact of COVID-19, workforce challenges and the ongoing Government reform agenda affecting sentiment towards the sector.

From a personal perspective, before I present my first report to shareholders as CEO, I would also like to add to Gary's comments and acknowledge the incredible commitment and contribution made by my predecessor as CEO, Ian Thorley, who has retired after a long and distinguished career in healthcare, particularly the last six years here at Estia Health. When Ian assumed the CEO role, no-one would have envisaged that a Royal Commission and global pandemic were circumstances that would simultaneously impact the sector. Through this period, Ian led the Group with extraordinary energy, determination and a steady hand. He left a legacy which our management team is proud to build on.

Operational performance

The cornerstone of our strategy is to put residents at the centre of everything we do. This is possible through the dedication of our 7,500 employees and healthcare partners working with residents and families to deliver on our purpose, 'to enrich and celebrate life together'.

Registered nurses are rostered at all Estia Health homes 24 hours a day, seven days a week, facilitating strong care outcomes for our residents. There remains close surveillance across the sector from the Aged Care Quality and Safety Commission and we are pleased that all our homes remained accredited during the period, with a strong record of compliance across the Group.

Our employees are integral to everything we do. In a challenging environment for workforce, exacerbated by COVID-19 and record low unemployment, our priority has been to invest in career pathways, development opportunities via the EstiaAcademy, central support for local teams and enhanced recruitment and onboarding systems. Despite remaining above pre-pandemic levels, it was pleasing to see our employee turnover level stabilise during the second half of FY22, where it remains at present.

Average occupancy for mature homes across the Estia Health portfolio for the year was 91.6%.

We achieved net Refundable Accommodation Deposit (RAD) inflows of $22.8 million during the year, bringing RAD balances to $884.1 million at the end of the reporting period. RAD flows have improved further in Q1 FY23, with an uplift in current resident inflows offset by a reduction in the probate balance of departed residents.

The new AN-ACC funding model commenced on 1 October and our project team ensured we were well placed for the change. Funding levels are expected to increase in FY23, ahead of the introduction of mandated care minutes in FY24.

Our new home in Blakehurst in NSW (105 places), which opened in February 2021, reached operational maturity ahead of expectations and continues to operate at near full occupancy. We are pleased with the success of the innovative service models implemented at Blakehurst, including our first Wellness Centre, providing reablement services to residents as well as the broader community and look forward to further expanding this offering across the portfolio.

Reform Agenda

Following the Royal Commission, the new Government's aged care sector reform agenda continues at pace, with ongoing clarification and refinement as proposals are advanced. The reforms will drive greater transparency, governance and competition, which is designed to lead to better resident outcomes, and more efficient use of taxpayer funded subsidies to the sector.

Estia Health has a robust operational platform, a strong financial position and is well-placed to take advantage of the growth opportunities likely to occur as a result of the reforms.

The key reforms which remain outstanding include:

- Star ratings, due to commence from December 2022, which will provide an overall rating based on four criteria – compliance performance, customer experience, quality indicators and average staff minutes. The sector is awaiting further detail on the specific inputs and calculation methodology to better understand likely outcomes;
- The Independent Health and Aged Care Pricing Authority (IHACPA), which will have responsibility for making recommendations to Government in relation to the costs of providing care from July 2023, replacing the current indexation system; and
- Mandated care minutes, with a requirement for 200 average care minutes per resident per day by October 2023, increasing to 215 minutes in October 2024. The net outcome to providers will become clearer once the requirement is

fully legislated and IHACPA consider the implication for requisite funding levels, which will be important to ensure the financial sustainability of the sector.

Estia Health continues to believe that limiting the definition of care minutes to that provided by Registered Nurses, Enrolled Nurses and Carers does not suitably recognise that there are other activities in the home that have a direct positive impact on the health, safety and wellbeing of a resident, such as allied health, lifestyle and recreational activities, psychosocial services and some food services.

Workforce

Workforce has replaced COVID-19 as the biggest challenge being faced by the sector at this time. The intersection of mandated care minutes and workforce shortages continue to create concern in the sector.

While larger providers have a relative advantage, the availability of labour is proving difficult to solve.

The commitment and loyalty of the aged care workforce has been exceptional, notwithstanding the fact that rates of pay typical lag comparable sectors.

This shortage of staff across the sector, coming so soon after the pandemic, is resulting in acute pressure. As a consequence, staff costs have increased, even with lower levels of direct COVID-19 impact, with persistent higher overtime and agency costs.

The supply of labour via migration, particularly student visas, is improving, but is not expected to result in a material improvement for some time.

We are working hard to attract, onboard and retain staff and to do so we have invested in increased training and development programs, a sector leading graduate nurse program and more broadly in recruitment strategies, systems and resources.

In FY22, over 17,700 training hours were delivered in clinical development, understanding dementia and behaviour management and we hosted 1,936 student placements.

We have also focussed heavily on employee wellbeing in order to provide a safe and supportive environment through investment in our employee assistance programs, including the introduction of psychological first aid training across the Group.

A stand-out result in FY22 has been in our employee safety metrics, which has allowed us to implement self-insurance for Workers Compensation in New South Wales and South Australia, with flow on benefits to costs and improved recovery and return to work rates.

As a result, we saw the LTIFR in FY22 reduced to 8.8 from 11.9 in FY21, a figure less than half the sector average. Pleasingly, the figure has continued to trend downwards in Q1 FY23.

The proportion of our workforce on Enterprise Agreements increased during FY22 to 96%, with a new EAs being implemented for our SA non-nursing staff. We also renewed two other EAs in the last 12 months at average increases of 2 - 3%.

Looking forward, the Fair Work Commission work value case, which is considering a request for a 25% increase in aged care wage levels, will likely be critical to increase the attractiveness of the sector to new staff, retain current staff and potentially motivate staff to return who have left the sector. The Government have supported the claim and committed to funding the outcome.

Growth

Growth remains a focus of the Group, albeit in a highly disciplined manner. We have ensured that we are well placed to expand as industry dynamics result in opportunities for strong, well-funded providers.

Our greenfield projects at St Ives and Aberglasslyn, both in NSW, are well underway and due for completion Q1 FY24. Our first brownfield development for some time at Burton in South Australia is virtually complete and is beginning to welcome new residents. Together with the Premier Health Care acquisition that I will discuss shortly, operational places are expected to increase by more than 10% over the next twelve months.

These new homes and rooms will be commissioned in a manner consistent with the successful approach taken to our most recent builds.

Our refurbishment program executed over recent years sees 62 homes now qualifying for the Higher Accommodation Supplements. We will continue our rolling program of home upgrades and asset life-cycle replacements to ensure our homes remain competitive in their markets.

In relation to diversification, due to sector challenges, increased regulation and low returns, it is considered unlikely at this time that we would seek to enter the home care market at any significant scale.

The current acute inflationary and supply pressures in the construction industry have had an impact on building costs, with new supply remaining suppressed. I had said at the time of our full year results release that the difficult operating environment for aged care may result in some providers, particularly at a smaller scale, seeking to exit the sector, that it was likely that the investment cycle may be tilted more towards acquisition growth for the short to medium term and that we were continuing to review opportunities in the ordinary course.

It was as a result of those factors which last week led us to announce the acquisition of 4 homes from the Premier Health Care Group.

Our confidence in making the acquisition is due to the ongoing strong performance of new high-quality homes with good amenity. Our most recently opened homes at Southport, Maroochydore and Blakehurst all built, commissioned and opened by the Group during in the last 3 years, consistently operate at high levels of occupancy and each reached 95% occupancy in less than 18 months, with strong RAD flows exceeding 50% of the capital costs. Each home generates annualised EBITDA in excess of $20,000 per bed when adjusting for the temporary cost impact of COVID-19.

More broadly, we are also focussed on adding value by optimising our substantial freehold property portfolio.

Premier Health Care Acquisitions

The acquisition of the Premier Health Care assets represents an attractive opportunity to add 409 resident places in high quality assets, three of which are less than five years old. The agreement is subject to regulatory approvals in relation to the transfer of resident places and is expected to complete by early December 2022.

Two homes are in Adelaide, South Australia and two are in South East Queensland and all are aligned to our existing successful operating clusters. All four homes are fully operational and have demonstrated good operating performance, despite the challenges arising from COVID-19.

These homes are of the highest quality and provide us with the opportunity to apply our proven commissioning skills in finalising the ramp-up of the two operating assets in Queensland, with 80 new vacant single ensuite rooms available for occupation.

Together with the optimisation of the resident mix in the South Australian homes, we are confident that the homes will deliver additional RAD inflows of approximately $10m, reducing the effective net cash consideration for the acquisition.

Our plans are expected to see earnings from the four homes to increase to be in line with the performance our own recently commissioned homes once ramp-up is complete, which we are aiming to largely achieve by the end of FY23. The acquisitions are expected to be EPS accretive from FY23.

Trading Update

I'll now move on to provide an update on operational performance for the first quarter of this financial year.

Spot Occupancy on our mature home portfolio of 6,163 places, excluding the Burton expansion of 24 places, was 92.3% at 31 October 2022. Average occupancy for the first Quarter was 91.7% compared to 90.6% in H2 FY22.

The 24 room extension at Burton in South Australia will fully complete this month, with 8 new residents already admitted.

The impact of COVID-19 has continued to decline during the first quarter of FY23. Total estimated incremental costs associated with prevention and response were $8.9m for the quarter, compared to $13.4m in the prior quarter. The number, severity and duration of outbreaks has in general reduced, though we are cautious around the small increase in aged care infections reported by the Department of Health and Aged Care in recent weeks.

Our grant applications in relation to costs incurred in FY22 continue to be processed by the Government, with ongoing delays. The final total for grants submitted relating to FY22 costs was $41.9m, of which $19.1m has now been either paid or confirmed. We have seen minimal adjustments post submission and expect further confirmations and receipts before 31 December 2022.

The Group's average AN-ACC funding for October, the first month of operation, was $223/day. There remains a number of re-assessment applications lodged which are not reflected in that figure and we continue to anticipate AN-ACC for FY23 to be broadly in line with the expected sector average of $225/day published by the Government.

Total RAD balances have increased by $6.5m since 30 June 2022. RADs held on behalf of current residents have increased by $8.9m, and the probate balance has reduced by $2.4m.

Net debt at 31 October, excluding the impact of the Premier Health Care acquisitions, was $75.9m

Conclusion

For the first time in four years, the sector is nearing a point where we will have a significant degree of certainty surrounding the regulatory framework, albeit there remain key elements to be determined over the coming 12 months, including mandated care minutes and the operation of IHACPA.

It is imperative that the final framework supports the provision of services which deliver good resident outcomes, ensures the sustainability of our critical sector and encourages further investment to meet the needs and expectations of future generations.

More broadly, we expect to see the industry benefit from higher occupancy as the impact of COVID-19 lessens and a reduction in new supply intersects with the ageing population, which will see the number of people over 85 increase by 60% in the next decade.

I am grateful for the extraordinary commitment, dedication, passion and care shown by all our employees at Estia Health. They care for our residents at a time of great challenge and their support and dedication is the key reason for the ongoing success of Estia Health.

Appendix to CEO's Address to the AGM 3 November 2022

Trading Update

Occupancy	Spot Occupancy on the mature home portfolio of 6,163 places, excluding the Burton expansion referenced below, was 92.3% at 31 October 2022. Average occupancy for the first Quarter was 91.7% compared to 90.6% in H2 FY22.
Burton Development	The 24 bed extension will fully complete this month, with 8 new residents already admitted.
COVID-19 Impact	Outbreaks and the associated impact on operations has declined since June in line with community infection rates.
FY22 COVID-19 Grant Applications	The current position in relation to the recovery of COVID-19 costs incurred in FY22 is shown below. Assessments continue by Government and the Group expects further confirmations before 31 December 2022.
AN-ACC	The Group's average AN-ACC funding for October, the first month of operation, was $223/day. This replaces ACFI and the $10/day basic fee supplement.
RADs	Total RAD balances have increased by $6.5m since 30 June 2022. RADs held on behalf of current residents have increased by $8.9m, and the probate balance has reduced by $2.4m:
Net Debt	Net debt at 31 October, excluding the impact of the Premier Health acquisitions, was $75.9m

COVID-19 Impact:

	Q3 FY22	Q4 FY22	Q1 FY23
COVID-19 incremental costs:	$'000	$'000	$'000
Employee benefits expenses	18,594	10,250	5,742
Non-wage expenses	5,757	3,173	3,148
	24,351	13,423	8,890
Average incremental costs / outbreak day	$9,999	$4,303	$3,455
Average incremental costs / total occupied bed days	$48.60	$26.33	$17.10

Of the Q1 FY23 costs of $8.9m, the Group currently estimates that at least $4.7m will be eligible for grants, for which applications are being prepared for submission.

FY22 COVID-19 Grant Applications:

	Total Submitted	Paid or confirmed	Still under assessment
	$'000	$'000	$'000
Total FY22 applications at 31 October 2022	41,903	19,062	22,303
Reported in FY22 Accounts		7,072	
To be reported in FY23 Accounts		11,990	
Total confirmed at 31 October 2022		19,062	

RADs:

	30 Jun 2022	31 Oct 2022
	$'000	$'000
Current Residents	756,894	765,766
Probate	127,175	124,797
Total	884,069	890,563