TRANSCRIPTION

Company: Regis Healthcare

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Operator:

Thank you for standing by and welcome to the Regis Healthcare Limited Full Year Results. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to your first speaker today, Mr Ross Johnston, Managing Director and Chief Executive Officer. Please go ahead.

Ross Johnston:

Thank you, welcome to the Regis Results Presentation for the Financial Year ended June 30 2016. Joining me today are David Noonan our CFO and Kirsty Nottle our General Manager for Investor Relations. Our presentation today is in three parts. Firstly business and financial highlights, portfolio overview and growth strategy, summary and outlook. We have also provided some appendices with further details for your reference. Firstly financial highlights.

Regis has experienced continued growth in line with expectations. Our revenue of $480.7 million, is 12% higher than the FY15 result. EBITDA of $105.1 million is 20% more than FY15 and NPAT of $56.8 million is 24% greater than in FY15. We note that the results for both the FY15 and FY16 have been normalised for one

off items. Such as the Masonic acquisition costs, so that you can see the underlying performance of the business. These adjustments are clearly shown in the tables in the appendices of the presentation.

Our results were driven by bed growth from acquisitions and developments and also an increase in the revenue per occupied bed day, coupled with solid cost control. Net RAD cash flow was $44.9 million and the net operating cash flow was $133.6 million. Capital expenditure of $146.2 million was made to support organic business growth, including development costs, and land purchases. Average occupancy of 95.2% was also in line with expectations. A final dividend of $0.594 per share has been declared by directors, which is fully franked. This brings the full year dividend per share to $0.1534 which is 100% of reported NPAT.

Next an update following the Masonic acquisition. On completion on June 1 2016 the key statistics were: 711 operational places, which was a 14% increase to the Regis portfolio. A RAD balance of $59.7 million with an average RAD of $302,000. The total investment net of RADs and staff leave provisions, was $153.2 million. This was $10 million less than originally announced due to increased RAD levels and ILU contributions received at settlement adjustment. The transaction was funded from cash reserves and existing debt facilities. The occupancy remains strong at 98% for June and July. We anticipate a RAD uplift opportunity of circa $50 million. The integration activities are tracking well and the business is on track to be earnings accretive in FY17, with anticipated EBITDA contribution in the range of $10 million to $12 million and NPAT of circa $3 million. We anticipate capital expenditure of $5 million during FY17, this will include the significant refurbishment of three of the facilities.

Looking at our key operational statistics for the second half and full year. Regis had strong operational result, compared with the FY15 result, operational places increased from 5,880 from 5,049. Occupancy in the second half was consistent with the first half, with an average if 95.2% for the year, and improvement from 94.4% for FY15. Government revenue was higher in the second half than the first half, bringing the government revenue per resident bed day to $190 for FY16, compared with $175 for FY15. In part this was reflective of the growth and revenue from the increased contribution, from the higher accommodation supplement, at significantly refurbished facilities. Resident revenue per occupied bed day was steady between the first half and the second half at $76 per day, compared with $74 for FY15. The increase reflects the increase number and value of DAP payments. As is usual in our business, based on the timing of cost increases in the business, staff expenses were

higher in the second half, than the first half, due to the timing of EBA increases, and the greater number of public holidays.

The staff cost to revenue ratio was 63.6% for the year, consistent with the result for FY15. This demonstrates that we managed the changes in staff expenses, through the acquired assets, the mobilisations, the ramp downs without impacting the staff expense to revenue ratio percentage. RADs held have increased both in number and in value, with 44% of the portfolio having paid a lump sum payment in the form of a bond or a RAD when looking at all RAD payers in part or full. The average RAD held per RAD paying resident, increased to $336.1 thousand for the full year. The average incoming RAD of $389.3 thousand exceeded the prior comparable period, result of $383.9 thousand.

For clarity we have also added the DAP rate in to our key statistics table. The average DAP rate for FY16 was $36.22, up from $31.52 in FY15. This includes both full and partial DAPs weighted to the equivalent for value. The combination RAD and DAP payments, the average percentage DAP payment was 49%. I will now hand over to our CFO David Noonan for discussion on the financial results. Thanks David.

David Noonan:

Thank you Ross and good morning everyone. Turning to page six, I will firstly step you through the waterfall bridge, which explains the key drivers for the $17.5 million or 20% improvement in normalised EBITDA from $87 million in FY15 to $105 million in FY16. An increase in $6.3 million in EBITDA in comparison to prior year was achieved from the sites acquired in FY15, and in early FY16. Being Tiwi in Northern Territory, Redlynch in Queensland and Marleston in South Australia. These sites have all now reached the targeted Regis run rate. The $6.3 million also includes the initial one month contribution from the trading of the Masonic sites. The closure of the Sunset facility in South Australia and Park in Western Australia, for redevelopment, which in total resulted in the closure of 160 places, impacted earnings during the period by $3 million. These places will be reopened in FY17, and FY18 respectively, as club services facilities. The increased contribution from higher accommodation supplement and a significantly refurbished facility, had a favourable impact of $7.6 million, during FY16. The EBITDA contribution from increased government and resident income, was driven by the COPE increase of 1.3%, higher DAP payments and additional services.

Our other expenses also reduced by $1.2 million year on year. We also note on this that staff expenses as a percentage of revenue were flat year on year. The actual increase in staff expenses from FY15 to FY16 was

$33 million in total. This comprised $9 million for steady state facilities, and $22 million for ramping up, ramping down or acquired facilities, with the balance relating to increases in non residential aged care businesses and administration.

Now turning to the waterfall chart on page seven, where we note that the improvement in normalised FY16 NPAT was driven by the $17.5 million growth in EBITDA compared to the prior period. This was partially offset by increased depreciation expense, which was $3.6 million higher than FY15. And which we'll continue to increase in FY17, and in future years due to the CapEx being spent on development projects. Our tax expense on normalised earnings continues to be approximately 30%. I will now take you through the cash flow movements for the year, which are shown on slide eight.

The net operating cash flow for the year of $133.6 million is predominately driven by the strong EBITDA performance and the net RAD cash flow of $44.9 million. The FY16 RAD cash flow is lower than FY15, which reflects the grandfathering in of new residents post the LLLB changes, which occurred two years ago and is now nearing completion. It also reflects that although the majority of residents are continuing to elect to pay a RAD, the number of combination RAD DAP payers, and full DAP payers, has increased from FY15 and now represents 49% of all permanent non supported incoming residents in FY16.

The FY16 net RAD cash flow, also highlights that the new places added to the portfolio during the year from the Brownfield development in Caboolture and Mildura, which are in regional locations, and are not expected to contribute many RADs. From this year onwards, our RAD cash flow will be predominantly driven by our new developments, and you will note in our FY17 outlook slide, that we are forecasting that the FY17 RAD cash flow will be circa $100 million. In total we spent $146 million of CapEx on development, significant refurbishment, land and other projects during FY16. $146 million included expenditure of $36 million on land for four key development sites. I will now hand you back to Ross, who will take us through the resident profile on page nine.

Ross Johnston:

Thanks David. As we mentioned this shows the majority of permanent residents who fund their own accommodation are electing to pay a lump sum RAD. However the percentage of full DAP payments has increased. The pie chart shows that the percentage of residents electing a full RAD payment were flat between the first half and the second half of FY16. You can see the number of DAP payments increasing relative to the

combination payments. These choices depend on individual circumstances including the resident's preference or ability to fund daily payments versus lump sum. The change in resident profile, as shown in the column graph, during its year indicates, the maturing of the significant refurbishment program, where circa 1600 eligible residents, now live in an enhanced living environment. The percentage of RAD paying residents falling slightly again as a result of the significant refurbishment program, were low value, pre LLLB bonds have been replaced by higher value supported residents.

The combination RAD DAP residents now represent circa 7.5% of the portfolio up from around 6% at December 31. A reduction in the proportion of DAP paying residents, this is mainly due to the departure of pre July 1 2014 residents, who had been paying an accommodation charge. The other column reflects mainly respite and pre LLLB residents. The profile of the Masonic residents on acquisition was circa 54% supported fully or partially. You can see that the tenure statistics have not materially moved by the Masonic acquisition, which saw similar tenure levels to those of the Regis residents. And now for our portfolio update.

Following the opening of the East Melbourne Greenfield facility on September 1 with 148 places, the company will have 54 facilities with 6027 operational places. And increase of 978 places since June 30 2015. The acquisition of the Masonic Care Queensland facilities was a major contributor to this, with 711 operational places. 211 new places were added, also to the portfolio in FY16. As a result of the development pipeline comprising Brownfield developments at Ontario Mildura, and Caboolture Queensland, as well as the opening of the North Fremantle Greenfield development.

The Company has had success in the 2015 Aged Care Reprovals round, known as ACAR which resulted in an additional 844 places being to Regis to support our development activities.

You can also see in the table that the significantly refurbishment program has now been completed at 28 facilities. It is anticipated a further five facilities, including a further three Masonic facilities will be refurbished by the end of FY17. Now moving to our growth strategy.

We have continued to achieve sound progress in the execution of our growth strategy. The Regis growth strategy is to take advantage of industry growth and the consolidation to leverage the existing portfolio. Since listing, 1308 additional operational places have been added to the portfolio and a further 1592 offline licenses and provisional allocations are available for future development. Our growth strategy has four levers. Firstly the acquisition of single facilities. Regis has acquired three facilities since November 2014 adding 444 places

to the portfolio. We continually review opportunities and assess these against our criteria. These criteria include: location, competitive position, bed configuration, scale, operational efficiency, future CapEx required and of course value. Our second lever is the acquisition of portfolios. We continue to look at opportunities that meet all of our criteria, which are no different to those for a single facility acquisition.

As we have already discussed the Masonic portfolio of 711 operational places competed on June 1 2016. Our third lever is Brownfield development. The two projects in the pipeline have been completed and contributed a total of 100 new places to the portfolio. The Company has a program in place to undertake expansion and redevelopment of its assets, including significant refurbishment through to 2022. Our fourth lever is the development of Greenfield facilities. Regis continues to be active in positioning itself for substantial growth from Greenfield developments. To development of new places we meet our key criteria as outlined above, and achieved superior cash flow returns from RADs through well located facilities in major metropolitan locations. The 844 provisional allocations from the 2015 ACAR further support this strategy, bringing the total number of provisional allocations and licenses available for future development to 1592.

Our growth strategy, page 13, illustrates the way in which the Company maintains its focus on the execution of its growth strategy. These are through firstly optimising the location of its assets and continuing to focus principally on urban locations. Ensuring efficient facility size, the development in asset renewal programs, are based on a model of circa 120 places. And this enables optimal workforce model to efficiently delivery quality services to our residents. Continued investment in the portfolio to ensure facilities are modern, of high quality and support contemporary care delivery. Continued focus on maintaining the scalability of our systems, processes and human resource strategies. A continuing focus on revenue growth, through the expansions of our Club Services program, through the Greenfield development program. And finally the expansion of our Additional Services across the portfolio.

As we have outlined in our previous presentations we expect RAD cash flow from developments to facilitate the repayment of acquisition and development related debt. Turing now to page 14 and you can see a summary of the changes in our expansion pipeline, since the presentation for the first half FY16 results. You can see the 321 new places have been delivered and 452 have been added to the pipeline, bringing the total of development places to 1404. Page 15 and 16 show the status of our current Greenfield development projects that are reasonably well advanced. As a reminder, our three criteria for including developments in the published

pipeline are: firstly land owned by the company, secondly development approvals have been granted, or we have reasonable certainty as to the timeframe within which this will occur and lastly licence is held or sufficient licence is held to commence mobilisation of the facility. Many of these projects have been disclosed previously.

Regis Kingswood and Linden Park both in South Australia have progressed significantly over the last six months, with construction now more than 50% and 25% complete respectively. These are anticipated to open in the second half of FY17. Construction is underway at our Chelmer project in Brisbane, the Nedlands, Elermore Vale, Woodlands and Port Coogee projects have all progressed in terms of receiving licence allocations and all of them now have development approvals. The detailed design is being finalised for the Lutwyche project in Queensland, which will soon commence construction. The development approval has been achieved for the Greenmount project in WA, and the development approval process has progressed for our site in Camberwell.

This presentation sees the announcement of the first stage of a series of development at our 10 hectare Inala site, in the Eastern Suburbs of Melbourne, receiving development approval for this project recently. The first stage includes the construction of 202 new places.

Moving to our development pipeline. The increased capital expenditure reflects the ramp up of our development pipeline. With the $146 million CapEx expended in FY16, circa $130 million was spent on the current development pipeline. CapEx spend in FY17 is now anticipated to be in the order of $160 million, this includes expenditure on: firstly the development projects both announced in the pipeline and yet to be announced, significant refurbishment at the three of the Masonic sites, refurbishment projects which continues to support occupancy and improved care outcomes, and finally some other items including maintenance CapEx. The increased net RAD cash flow from development projects is anticipated to exceed the CapEx outlay on these projects in future years.

Summary and outlook. Regis has delivered a solid result in FY16, normalised EBITDA of $105.1 million and normalised NPAT of $56.8 million were the results of continued business growth and a solid operational performance for the business. The average revenue per resident day was $274 in the second half of FY16, compared to $271 in the first half. Occupancy and labour costs were both in line with expectations. Net operating cash flow of $133.6 million was driven by the EBITDA result, and by the net receipt of RADs of

$44.9 million. The company made significant investment including land, development CapEx, and acquisitions of $298.1 million. A final dividend was declared of $0.594 by directors per share, giving a full year dividend of $0.1534 which is 100% of reported NPAT.

Just summarising our development activity, in finishing we note that the Regis maintains its focus on the execution of its growth strategy, the development program continues to ramp up, 211 new places were delivered in FY16, with a further 148 places delivered so far this year. The expansion pipeline now includes 1404 new places and the company has 1592 licences and provision allocations available for future development. Following the execution of the existing development pipeline, Regis is expected to have circa 7200 operational places by the end of FY20.

Moving to the outlook for FY17, the outlook for FY17 is positive for both EBITDA and NPAT. FY17 EBITDA is anticipated to be at least 15% in excess of normalised FY16 underpinned by: increased income from supported residents at significantly refurbished facilities, and greater contributions from additional services. Increased earnings contributions from the acquired and ramping up facilities, being Masonic, North Fremantle, WA and East Melbourne in Victoria. Having regard to FY17, debt will remain at approximately two times EBITDA, which will result in higher interest expense in FY17, being circa $8 million. Depreciation will be higher resulting from increased development activity, the FY17 depreciation expenses will be in a range from $28 million to 31 million. Net RAD inflows are anticipated to be circa $100 million. Total CapEx spend in FY17 is anticipated to be in the order of $160 million.

The Federal government announced changes to its residential aged care funding in the MYEFO November 2015 and the Federal Budget 2016, which commenced in FY17. For the Company there would be minimal impact resulting from these changes in FY17. The changes are more significant in FY18 and FY19. The Company's modelled these changes comprehensively, both from a quantum and timing perspective. The implementation of our mitigation plan, both from a care and services and income perspective has commenced, and we continue until these are fully grandfathered in to the business.

These mitigates include: firstly a review of our room pricing across the Company, implementation of our asset replacement contribution, expanded additional service offerings and other fees and charges. Currently we are tracking along with our plan and our forecast. So in closing today I would like to thank my executive team, the

board of Regis and all of our employees for their support in progressing our growth plans, and their ongoing commitment to providing our resident care. That ends our presentation for this morning.

END OF TRANSCRIPT