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ASX ANNOUNCEMENT

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The Manager
Company Announcements Office
Australian Securities Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

REGIS HEALTHCARE REPORTS NPAT OF $12.1m FOR 1H FY20 AND DECLARES AN INTERIM DIVIDEND OF 4.02 CENTS PER SHARE

Half-Year Key Points

- Underlying revenue (pre AASB 16) of $332.2m, up 4.4% on pcp
- Underlying EBITDA[i] (pre AASB 16) of $44.4m, down 21.7% on pcp
- Average occupancy of 90.4%[ii] in steady state homes
- Reported NPAT of $12.1m, down 50.5% on pcp
- Underlying net operating cash flow[iii] of $74.0m including net RAD and entry contribution receipts of $46.1m
- Net debt of $281.5m (adjusted for funding received in advance in December); a reduction of $21.7m since 30 June 2019
- Interim dividend declared of 4.02[iv] cents per share, 50% franked
- FY20 guidance reaffirmed, circa $92m and circa $28m underlying EBITDA (pre AASB 16) and underlying NPAT respectively

Commenting on the results, Regis' Managing Director and CEO, Dr Linda Mellors said "Regis continues to maintain our high quality care and service levels. The financial result reflects the continuing challenging industry conditions, with pressure on occupancy and ongoing insufficient funding indexation to cover the corresponding inflation in operating costs. This experience is shared across the industry with the latest Aged Care Financing Authority report stating that 44% of Providers are now operating at a deficit[v].

Pleasingly, net RAD and retirement village entry contribution receipts were $46.1m. RAD contributions were largely attributable to the ten new homes ramping up and were also positive in the steady state homes. Homes ramping up continue to deliver EBITDA and NPAT growth and are performing in line with internal expectations against key metrics – Care, Quality, Compliance, EBITDA, Occupancy and RADs, with the exception of homes in WA where the ramp ups have been slower than expected.

Following this difficult first half for the Company, our focus at this time is to optimise business performance whilst maintaining excellent resident care standards. The business performance improvement will be achieved through occupancy improvement strategies, disciplined cost management and process redesign. We continue to review acquisition and development opportunities whilst keeping a conservative approach to managing our balance sheet and debt."

Financial Results

A summary of the 1H FY20 financial results is as follows:

	$m 1H FY20 Reported	$m 1H FY20 Underlying	AASB 16 Impact	$m 1H FY20 Underlying Pre AASB 16	$m 1H FY19 Underlying	% variance 1H FY20 Underlying to 1H FY19 Underlying
Revenue	361.5	361.5	(29.3)	332.2	318.2	4.4%
EBITDA	73.0	74.3	(29.9)	44.4	56.7	(21.7%)
Net operating cash flow	111.0	74.0	-	74.0	109.1	(32.2%)

The underlying 1H FY20 result has been adjusted to exclude the Royal Commission costs incurred during the period.

Key factors influencing both the EBITDA and NPAT for the period when compared with 1H FY19 are:

- Improved contributions from the homes ramping up
- Decline in average occupancy in the steady state portfolio
- Government funding (COPE)[vi] indexation of 1.4% versus cost inflation of circa 3%

NPAT was also affected by the higher depreciation from the homes ramping up.

The net operating cash flow result was driven by positive RAD inflows:

- Homes ramping up were the main contributor to the net RAD and entry contribution cash flow of $46.1m. The net RAD contribution from steady state homes was also positive.
- As a result of the homes ramping up, the number of RADs held increased and the average incoming RAD grew to $481.7k for 1H FY20 compared with $478.6k for FY19
- Resident choice in terms of RAD/DAP mix shows a consistent profile with 56% of new residents[vii] in the period choosing to pay a RAD, 7% choosing a DAP[viii] and 37% choosing a combination RAD/DAP payment

The Board has declared an interim dividend of 4.02 cents per share. This represents 100% of reported NPAT, is 50% franked and is payable on 9 April 2020.

Occupancy

The Residential Aged Care Industry is experiencing occupancy headwinds due to:

- Continued negative public sentiment towards aged care, in part due to the Aged Care Royal Commission and associated reporting
- Consumers on home care waiting lists anticipating an increase in the number of new home care places and delaying entry into residential care

Despite these headwinds, we have a series of programs underway to improve occupancy. Strategies have been developed taking into account location, local demand and relationships with clinical care providers in the hospital, primary care and community sectors. Additional resources have been applied to the ramp up sites in WA to maximise the opportunities in that state.

Market Position and Strategy

The Company opened 1,247 new places over the last four years in high quality homes. As at 31 December 2019, 987 or 79% of these places were occupied and $286.5m of net RAD cash flow had been collected.

Investment in new homes has now slowed due to the lack of certainty in Government funding and policy, as well as uncertain outcomes from the Aged Care Royal Commission. Regis has paused several projects in the development program although the commencement of a greenfield development in Camberwell, Vic is planned for 2H FY20.

For the remaining developments in the pipeline, activities such as preparing land for commencement, development approvals, design documentation and arranging licences required are underway in readiness to commence construction once conditions are more favourable.

Residential Aged Care acquisition opportunities continue to be assessed against the Company's criteria. Regis has contracted to purchase three services with a total of 173 places across two locations in Lower Burdekin, near Townsville, which will be supported by Regis' existing operating network. Completion of the Lower Burdekin acquisition is scheduled for 1 March 2020.

Regis is also continuing to prepare for the commencement of the redevelopment of the retirement living locations in Nedlands, WA and Blackburn South, Vic, which will unlock value from the Retirement Living assets.

FY20 Outlook

Regis reaffirms the full year guidance provided in the Trading Update dated 20 December 2019 of underlying full year EBITDA (pre AASB 16) of circa $92m and underlying NPAT of circa $28m.

With regard to 2H FY20, the Company expects an improvement in occupancy in the steady state and ramp up homes along with optimising business systems and processes.

Full year aged care capex spend will include the commencement of construction at Regis Camberwell.

The Company will continue to be disciplined with its balance sheet management.

For the FY20 year, it is anticipated that the Company's franking percentage will be broadly in line with the first half.

Regis will maintain high quality care and service levels for consumers.

Acknowledgement

Regis acknowledges its loyal and hardworking employees for their individual and collective contributions to care and services.

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A teleconference and webcast will be held by Regis' Managing Director and CEO Dr Linda Mellors at 11am AEDT. Dial in or login details are provided on the following webpage:

https://www.regis.com.au/investor-information/forward-calendar/

This document was authorised for release to the ASX by the Regis Healthcare Limited Board.

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i Underlying EBITDA excludes Royal Commission costs
ii Effective from 1H FY20, we have updated the way that we report on occupancy. With the ramp ups now approaching steady state, the occupancy calculation now reflects occupied beds as a percentage of actual total available beds.
iii Underlying net operating cash flow excludes funding received in advance
iv The interim dividend for 1H FY20 represents 100% of reported NPAT for the six month period to 31 December 2019
v Aged Care Financing Authority 2019 Report
vi Commonwealth Own Purpose Expense
vii Permanent, non supported residents entering aged care after 1 July 2014
viii Daily Accommodation Payment