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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 increase in H1 FY22 Net Profit after Tax before Amortisation (NPATA) to $10.6 million

Regis Healthcare Limited (ASX:REG) today announced a net profit after tax (before amortisation of operational places) of $10.6 million for the half-year ended 31 December 2021.

Key Points:

- Revenue from services of $364.2 million, up 3% on pcp
- Average occupancy of 89.3%[1] (H1 FY21: 88.3%)
- Spot occupancy of 90.4% as at 18 February 2022
- Adjusted EBITDA[2] of $44.1 million, up 13% on pcp
- NPATA[3] of $10.6 million (before amortisation of operational places - refer below)
- Statutory net loss after tax of $3.7 million
- Net operating cash flow of $126.7 million[4] including net RAD receipts of $47.1 million
- Net debt of $60.8 million[4] - reduction of $82.7 million (58%) from 31 December 2020
- Board of Directors resolved to pay an interim dividend of 3.52 cents per ordinary share (50% franked) payable 8 April 2022 (record date 11 March 2022)

Commenting on the half-year financial results, Regis' Managing Director and Chief Executive Officer, Dr Linda Mellors said, "Regis has performed well despite the continued challenges of COVID-19 and underfunding of the sector, lack of detail from the Australian Government in relation to the future funding model, and the burden of additional compliance and reporting requirements. We have continued to maintain tight and conservative management of the business as we await urgently needed financial and policy reform of the sector.

Our focus remains on providing quality resident care, service and accommodation, as well as supporting our workforce during this time of extreme pressure. The current COVID-19 Omicron variant outbreak across the country continues to remind us of the vital role we play in protecting older Australians and advocating for their interests.

It is very disappointing that the most pressing policy and funding responses to address the aged care sector's known challenges have not yet been addressed, leaving the most difficult environment the sector has witnessed in a generation."

COVID-19

Regis has continued to be impacted by COVID-19 including the Omicron outbreak from mid December 2021. Regis has implemented Outbreak Management Plans across impacted homes. Residents have continued to be provided with care, services and support, and the Group has provided, at a minimum, updates every 1-2 days to the residents, families and employees of impacted homes. High levels of vaccination rates have provided additional protection to residents and staff against the outbreaks. The Group continues to work closely with health and regulatory authorities.

Regis has worked proactively to support and advocate for appropriate risk assessments and responses by external agencies, including balancing infection prevention and control measures with residents' needs and preferences for their physical health, mental health, socialisation and overall well-being. Regis has systems and processes to support the contemporary improvements in the treatment of the virus, including anti-viral medications.

A major issue facing aged care providers is that the spread of the COVID-19 Omicron variant has placed additional strain on a workforce that had already been experiencing significant pressure. The ongoing presence of the COVID-19 virus may lead to additional staffing disruption and financial pressures. Dr Mellors said, "Regis has in place in-house specialist infection control expertise, robust operational controls and detailed business continuity plans. The Company continues to review the progress of the COVID-19 pandemic and take necessary steps to protect the health, well-being and safety of residents, clients and employees."

Vaccination of residents and workforce has required substantial effort and coordination. Regis has actively promoted vaccination which has been shown to be highly protective against death and serious illness from COVID-19. In addition to the vaccination clinics for doses 1 and 2, all Regis homes have held at least two COVID-19 vaccination booster clinics.

As at 18 February 2022, 94% of residents eligible for a booster dose have received one. Regis has mandated a COVID-19 vaccination policy for the workforce which includes the booster dose in addition to State and Territory directions.

The pandemic has also impacted Regis' operations, revenues and expenses. To date, Regis' FY22 expenses associated with COVID-19 outbreaks and single-site working requirements will only be partially offset by Government grants.

The Company incurred COVID-19 related costs of $4.5 million during the first half of the financial year including incremental staff expenses, personal protective equipment, infection prevention and control, and employee welfare.

Regis anticipates ongoing additional costs in both outbreak and non-outbreak homes during the second half of the financial year associated with staff expenses and infection prevention and control including the use of personal protective equipment (PPE) and rapid antigen test kits. No COVID-19 Government funding has been received during the first half of the year to support the substantial preventative and protective activities (including PPE) put in place by the Company.

Financial Results

$ millions	H1 FY22	*(Restated)*[7] H1 FY21	△ H1 FY21 to H1 FY22
Revenue from services	364.2	353.1	3.1%
Other income	31.4	35.2	(10.8%)
Adjusted EBITDA[2]	44.1	39.0	13.1%
NPATA[3]	10.6	8.5	24.7%
Capital expenditure	30.7	7.6	303.9%
Net RAD cash inflow	47.1	4.7	902.1%
Net operating cash flow	126.7	88.6	43.0%
Net debt	60.8	143.5	57.6%
Average occupancy %[1]	89.3%	88.3%	1.0pt
Staff expenses[5] / revenue from services %	71.4%	71.8%	0.4 pts
Basic EPS (cents per share)	(1.22)	2.83	(143.1%)

Trading Performance

Revenue from services for the half-year ended 31 December 2021 includes:

- $Nil (H1 FY21: $6.8m) of COVID-19 Government funding;
- $Nil (H1 FY21: $0.9m) of temporary uplift in the Aged Care Funding Instrument (ACFI);
- $11.6 million (H1 FY21: $nil) Government Basic Daily Fee (BDF) Supplement received from 1 July 2021 representing $10 per day, per resident; and
- Impact of 1.1% increase in COPE[6].

Average occupancy improved to 89.3%[3] (H1 FY21: 88.3%) with increased contributions from Victoria and Western Australia offset by New South Wales which was significantly impacted by COVID-19 lockdowns during the period. Spot occupancy at 31 December 2021 had improved to 90.7%.

During the period, the Company experienced significantly increased staff expenses including additional overtime and use of agency contractors due to staff shortages caused by pre-existing sector workforce challenges compounded by border closures and the direct impact of COVID-19. Increased staff expenses due to the impact of Enterprise Agreements were only partially offset by the 1 July 2021 indexation increase (1.1%) applied by the Australian Government to aged care funding.

The additional Government Basic Daily Fee from 1 July 2021 was largely absorbed by enterprise agreement wage increases only partially offset by funding indexation together with increased consumables, compliance and reporting costs.

The Group's statutory net loss after income tax of $3.7 million (H1 FY21: NPAT $8.5 million) included the following one-off/non-trading items:

- COVID-19 costs including staff expenses, PPE and other related costs of $3.1 million (after tax);
- Non-cash amortisation to profit and loss of operational places of $20.3 million; and
- Reversal of deferred tax liability (and credit to tax expense) relating to the amortisation of operational places of $6.0 million.

Amortisation of Operational Places

In late September 2021, the Australian Government announced its decision to discontinue operational places from 1 July 2024. In accordance with Accounting Standards and the guidelines issued by the Australian Securities and Investments Commission ("ASIC"), as well as the Group's current understanding of the relevant legislation and transitional arrangements relating to the removal of operational places, the Group has reassessed the useful life of its operational places. Consequently, Regis has commenced amortising the value of operational places from 1 October 2021 on a straight-line basis over their remaining economic life to 1 July 2024. This has resulted in a before tax amortisation expense in the profit and loss for the half-year ended 31 December 2021 of $20.3 million with no impact to the cash flows of the Group.

The reassessment of useful life is considered to be a change in accounting estimate under Australian Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The intended market deregulation of operational places presents new opportunities for Regis to invest in geographic areas previously not open to the Group. The removal of operational places will most likely increase competition around quality of care, service and accommodation, which presents an advantage to providers such as Regis who have a strong balance sheet and access to capital to further develop the sector.

Cash Flow and Net Debt

Net cash flow from operating activities for the half-year ended 31 December 2021 was $126.7 million[4] (H1 FY21: $88.6 million). Cash flow was favourably impacted by significantly increased net RAD cash inflow of $47.1 million (H1 FY21: $4.7 million) despite COVID-19 related lockdowns that impacted community confidence in the sector and a number of Regis' homes. The net RAD cash inflow of $47.1 million was generated from mature homes as there are currently no ramp-up homes within the portfolio.

During the half-year, the Company repaid $42.5 million (H1 FY21: $43.0 million) of bank borrowings. Net debt at 31 December 2021 of $60.8 million[4] (H1 FY21: $143.5 million) represented a 58% reduction in net debt on the prior corresponding period.

Capital Expenditure

During the half-year, the Company invested $30.7 million (H1 FY21: $7.6 million) in capital expenditure mainly on maintenance and refurbishment of homes and the purchase of a parcel of land at Belrose, New South Wales, with approved plans for a residential aged care home. The recommencement of a greenfield development in Camberwell, Victoria, is scheduled for later in the 2022 financial year (subject to improved funding conditions).

For the remaining developments in the pipeline, activities such as preparing land for commencement, development approvals, design documentation and arranging operational places required (through to 30 June 2024) are underway in readiness to commence construction once conditions are more favourable.

The Company's growth strategy continues to include the following four levers:

- Greenfield aged care and retirement living developments;
- Aged care facility and home care acquisitions;
- Expansion and reconfiguration of existing facilities; and
- Aged care portfolio acquisition opportunities as they arise.

Sector Reform

Regis strongly supports the need for urgent sector reform across the domains highlighted by the Royal Commission including workforce, funding, governance, quality and safety, regulation and system design. It is critical for the sector and indeed the Australian community that the reforms are implemented properly, with transparency and accountability back to the public.

To this end, Regis is a founding member of the Aged Care Reform Network, and is actively supporting the work of the Aged Care Workforce Industry Council and the commitment of the sector to form a single representative sector body in the near future.

Dr Mellors said, "Our data intelligence continues to support strong growth for the sector with an ageing demographic, the reform outcomes including additional requirements and funding, a substantial increase in the workforce and a likely reduction in the number of Approved Providers, as Providers themselves and regulatory requirements continue to raise the bar.

While the Australian Government has committed to $17.7b in the forward estimates to address known challenges in the sector, there is still much detail to be worked through and implementation of critical elements needs to be brought forward, including adequate care funding and workforce supply. In addition, the Company notes the Fair Work Commission is currently considering aged care worker pay rates and looks forward to its recommendations and the Australian Government's response.

As one of the largest providers in Australia, Regis is well placed to meet many of the intended reforms, including corporate governance, clinical governance, prudential controls, food and nutrition standards, registered nurses on site 24/7 and career pathways across all roles."

Oneview Healthcare PLC

On 21 December 2020, Oneview Healthcare PLC lodged a claim in the Supreme Court of Victoria against Regis seeking damages of $21.4 million for alleged breach of a collaboration agreement between the two parties. Regis has engaged external legal counsel and intends to strongly defend the matter.

Potential Employee Entitlement Underpayments

As disclosed in the 2021 Annual Financial Report, Regis announced to the ASX on 9 August 2021 that it had identified potential underpayments of employee entitlements to certain current and former employees under its enterprise agreements.

These payment shortfalls had arisen because some employee entitlements due under various enterprise agreements were recorded inaccurately in the payroll system. This led to incorrect payments to a number of employees.

Regis, with the assistance of external advisors, commenced a review to determine the extent of the underpayments looking back 6 years. While this review is ongoing, based on preliminary analysis, Regis provided $35 million in other provisions as at 30 June 2021 in relation to the issue. The provision remains at $35 million as at 31 December 2021 (refer Appendix I).

Dividend

On 23 February 2022, the Board of Directors resolved to pay an interim dividend of 3.52 cents per ordinary share totalling $10.6 million (50% franked) for the half-year ended 31 December 2021, payable on 8 April 2022 (record date 11 March 2022).

Outlook

Given the current uncertain policy and funding environment, and direction and impact of the COVID-19 pandemic, the Board does not believe it prudent to put forward any earnings guidance at this stage.

Dr Mellors said, "We are proud of how our people continue to demonstrate their commitment, capability and resilience while dealing with the challenges of the past two years, including the ongoing pandemic. I would like to commend the extraordinary efforts of our entire workforce and the Board and management thank them for the important work they do in caring for older Australians with commitment, focus and kindness. I would also like to express my gratitude to our residents, clients and families for choosing Regis for their care and service needs."

For further information, contact:

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A teleconference and webcast will be held by Regis' Managing Director & CEO Dr Linda Mellors and CFO Mr Rick Rostolis at 11am AEDT. Dial-in or login registration details are as follows: https://www.regis.com.au/investor-information/forward-calendar/

This document was authorised for release to the ASX by the Board of Directors.

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[1] Based on average available operational places of 7,104 (H1 FY21: 7,170)
[2] Adjusted EBITDA excludes imputed income on RADs and Bonds of $31.4 million (H1 FY21: $32.7 million), $4.5 million of incremental COVID-19 expenses and includes operating lease expense of $0.7 million (H1 FY21: $0.7 million)
[3] NPATA represents statutory net profit after tax (NPAT) before amortisation of operational places
[4] Includes Government funding received in advance (December 2021) for January 2022 of $40.1 million (H1 FY21: $39.6 million)
[5] Excludes COVID-19 related staff expenses that are included in $4.5 million of incremental COVID-19 expenses
[6] Commonwealth Own-Purpose Expense
[7] Refer Appendix I

Appendix I

Prior Period Restatements

Potential Employee Entitlement Underpayments

As disclosed in the 2021 Annual Report, Regis announced to the ASX on 9 August 2021 that it had identified potential underpayments of employee entitlements to certain current and former employees under its enterprise agreements. While this review is ongoing, based on preliminary analysis, Regis has provided $35.0 million in the financial statements in relation to the issue.

The impact of the potential underpayment on profit before income tax for the financial year ended 30 June 2021 was $7.1 million (2020: $6.4 million), with the remaining amount recorded as a prior period restatement in accordance with Australian Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* Consequently, the financial information for the half-year ended 31 December 2020 is required to be restated for the purpose of period to period comparison. Staff expenses have been increased by $3.6 million with a corresponding decrease of $1.1 million to tax expense.

Imputed Income and Expense on RADs and Bonds

As disclosed in the 2021 Annual Report, the Group reviewed the calculation of the non-cash imputed income (as required by AASB 16 *Leases*) recognised in respect of Refundable Accommodation Deposits (RADs)/Bonds received from residents. This led to an increase in imputed income on RADs and Bonds of $9.0 million to $32.7 million and a corresponding increase in the imputed interest charge on RADs and Bonds of $9.0 million to $32.7 million with no impact on the Group's net profit after tax for the half-year ended 31 December 2020.