Macquarie Australia Conference
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Chris Price – Chief Financial Officer
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  - Structural
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Australian Residential Aged Care - Structural

- Strong and increasing demand profile
  - Over 192,000 residents now
  - Government forecast plus 76,000 by 2026
    - ACFA estimates $33bn of capital funding is required to meet growth and replace obsolete stock.¹
  - Supply likely to lag demand

- Barriers to entry are high
  - Financial – e.g. initial capital
  - Regulatory – e.g. approved provider status, licenses

Net new place additions over time (‘000s)²

- Entry to aged care is needs based (non-discretionary)
  - Average age of residents is approx. 85 - steadily increasing for the past five years
  - 24/7 care

- Highly fragmented sector – 972 providers in total operate 2,681 facilities
  - 57.1% owned by not-for-profit
  - Consolidation opportunities

1. Aged Care Financing Authority – 2016 Report on the Funding and Financing of the Aged Care Industry
2. Macquarie Aged Care Sector Overview. April 2017
## Australian Residential Aged Care – Funding

<table>
<thead>
<tr>
<th>Funding Type</th>
<th>Description</th>
<th>Funding</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACFI</td>
<td>- Assisted Daily Living</td>
<td>Government or means tested</td>
<td>Max. $214.06 per resident per day</td>
</tr>
<tr>
<td></td>
<td>- Behavioural</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>- Complex Health</td>
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<td></td>
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<tr>
<td></td>
<td>- Applies to all residents</td>
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<td></td>
</tr>
<tr>
<td>Basic Daily Care Fee</td>
<td>- Covers living costs such as meals, power and laundry 85% of pension</td>
<td>Resident</td>
<td>$49.07/day</td>
</tr>
<tr>
<td></td>
<td>- Applies to all residents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional Services</td>
<td>- Additional fees for other care or services above the assessed requirements Typically non-concessional residents</td>
<td>Resident</td>
<td>Market rate. Typically $25 - $85/day</td>
</tr>
</tbody>
</table>

ACFI: Aged Care Funding Instrument
Australian Residential Aged Care – Funding

Accommodation

- Refundable Accommodation Deposit (RAD) - Interest Free Capital
  - Non-concessional residents
  - Bed contract value set by provider
  (subject to $550,000 cap - can be increased with Department approval)

- RADs - Fund expansion
  - Unique to the sector
  - Permitted uses include capital expenditure for residential care, refunds of RADs/bonds and repayment of debt incurred for a permitted use

- Original amount (less agreed deductions) ultimately refunded to resident’s estate. Replaced with incoming RAD, typically at a higher amount

- Can elect instead to pay a Daily Accommodation Payment (DAP) or combination RAD/DAP. Resident’s choice

- Accommodation Supplement - $26.93 to $55.09
  - Concessional residents
  - Used to cover repairs and maintenance capex
Australian Residential Aged Care – Regulatory Environment

- Regulatory framework creates barriers to entry
- Ongoing reform aimed at improving resident service/choice and providers’ ability to respond thereto
- Government provides approx. 70% of sector revenue
- Cumulative Average Growth Rate of Government funding over fiscal 2008 to 2015 was 8.6%¹
- Government funding continues to increase and is forecast to grow at nearly 6% per annum

<table>
<thead>
<tr>
<th>2016-17 Budget aged care expenditure estimates, $billions²</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Residential aged care services</td>
</tr>
</tbody>
</table>

¹. Aged Care Financing Authority – 2016 Report on the Funding and Financing of the Aged Care Industry
². Deloitte Access Economics, Australia’s aged care sector: economic contribution and future directions
Australian Residential Aged Care – Regulatory Environment

• Recent Government initiated sector reviews
  - Aged Care Sector Committee. Aged Care Roadmap. May 2016
  - Aged Care Legislated Review. D Tune. August 2017
  - Alternative Aged Care Assessment Classification Systems and Funding Models. University of Wollongong. April 2017
  - Review of the current ACFI. Aged Care Solutions
  - ACFA Review of the Accommodation Bond Guarantee Scheme. Current

• Reform
  ✓ Simplify current system
  ✓ Increase consumer choice
  ● Is creating uncertainty
Japara Healthcare FY17 H1 Performance Recap
Japara Healthcare’s residential aged care portfolio

One of Australia’s largest residential aged care providers, with a growing national footprint

- Over 3,800 operational places
- 100% accreditation record
- 43 residential aged care facilities
- Growing portfolio across 5 states
- 180 Independent Living Units
- Over 5,200 employees

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FY17 Half Year Results Presentation
H1 FY17 – Financial highlights

- Strong Balance Sheet Underpins Growth Strategy
- Operating Model Consistently Generates Cash Flows From Both Operating And Capital Funding Sources

<table>
<thead>
<tr>
<th>Total Revenue</th>
<th>EBITDA</th>
<th>Interim Dividend</th>
<th>EPS</th>
<th>Conservative Capital Structure</th>
<th>RAD Cash Flows Strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>$178.5m</td>
<td>$29.1m</td>
<td>5.50 cents</td>
<td>5.50 cents</td>
<td>Net bank debt $7.8m</td>
<td>$29.0m</td>
</tr>
<tr>
<td>Up 14.5% on pcp</td>
<td>Up 3.6% on pcp</td>
<td>Fully Franked</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Development expenditure $23.0m
Maintenance capex $3.9m
H1 FY17 – Operational highlights

- **Track Record Of Strong Operating Performance Maintained**

  - **Brownfields developments**
    - 124 premium rooms delivered
  - **Four new land purchases in FY17**
    - 445 new greenfield beds to be built
  - **Significant refurbishments**
    - 13 facilities over next 2 years to provide in excess of $4.0m EBITDA uplift
  - **Care**
    - 100% accreditation record maintained
  - **Occupancy**
    - Averaging 94.4%
  - **Profke Acquisition**
    - H1 FY17 EBITDA of $3.1m
      - Expect recovery to FY16 level of earnings
Key operational metrics

**Operational places**

<table>
<thead>
<tr>
<th></th>
<th>1HFY17</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
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**Average occupancy**

<table>
<thead>
<tr>
<th></th>
<th>1HFY17</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-2017</td>
<td>94.4%</td>
<td>94.4%</td>
<td>94.8%</td>
<td>93.9%</td>
</tr>
</tbody>
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**Average incoming bed contract price ($’000)**

<table>
<thead>
<tr>
<th></th>
<th>1HFY17</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-2017</td>
<td>339.7</td>
<td>320.0</td>
<td>304.0</td>
<td>272.0</td>
</tr>
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</table>

**Staff costs to revenue**

<table>
<thead>
<tr>
<th></th>
<th>1HFY17</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-2017</td>
<td>67.9%</td>
<td>67.1%</td>
<td>66.4%</td>
<td>67.6%</td>
</tr>
</tbody>
</table>

1. Pro forma metrics. FY14
2. Average occupancy excludes facilities undergoing Brownfield developments and Profke
RAD:DAP mix – trend and projection

Resident accommodation payment trend provides appropriate balance between capital and income

- Preference of incoming residents post reform is relatively consistent
- Japara’s bank facilities, development returns and gearing policy determined cognisant of this trend

RADs typically represent a greater proportion on higher priced development beds
1. Overview

- **Strategy**
  - Operational efficiency
  - Greenfield developments
  - Brownfield developments
  - Significant refurbishments
  - Acquisitions – Portfolio
  - Acquisitions – Single facility

- **Other Considerations**
  - Direct adjacencies
  - Continuum of care
2. Operational Improvement

- **Occupancy** currently 94.4% - upside opportunity

- **Wages ratio** currently 68% - upside opportunity

- **Technological leverage**
  - Workforce management
  - ACFI/Occupancy BI
  - LiveHire trial

- Resident services
- Clinical care
- Employee self service
Strategy

3. Development Activity

- **Land secured**
  - 10 of 11 Greenfield projects
  - Analysis identifies under bedded areas

- **Greenfield projects**
  - Additional 1,049 beds by FY20
  - Circa 900 bed licences owned or secured
  - 100% single bed profile

- **Brownfield developments**
  - 4 facilities completed during FY17
  - 3 facilities to be completed in FY18

- **Significant Refurbishment program**
  - 13 facilities to be completed by H1 FY19
  - Capex Circa $15m; EBITDA uplift > $4m
4. Acquisitions/Consolidation

- Portfolio acquisitions
  - E.g. Whelan (4 facilities, October 2014); Profke (4 facilities, December 2015)

- Single facility acquisitions

- Strict financial and non-financial assessment parameters

- Opportunity for improvement
  - Capital
  - Care model
  - Cost synergies

- Current market conditions – misalignment between vendor and purchaser expectations

- Private market pricing for smaller/mid size assets typically lower than scale transactions
Other Considerations

Direct Adjacencies & Continuum of Care

Direct Adjacencies
- Examples
  - Physiotherapy
  - Podiatry
  - Funeral Services
- Develop differentiated customer proposition
- Diversifies revenue base
- Potential to capture and internalise margin
- Size of impact small without multiple transactions

Home & Community Care
- Why? – Government policy support and RAC occupancy benefit
- Potential to partner with Not-For-Profit and/or develop organically
- Limited number of scale operations
- Opportunity for high quality, limited service offering

Assisted Living
- Real estate investment thematic and less regulatory complexity
- Increased exposure to private pay market
- Opportunity for ‘ageing in place’ offering
Outlook Summary

• Balance sheet strength supports growth strategy and provides diversified funding sources

• Land acquisitions and developments program have progressed very well in H1 FY17 and underpin medium term growth

• FY17 EBITDA is expected to grow at 7% to 10% on FY16

• Stronger second half is expected with brownfield developments admitting more residents, Profke facilities’ earnings recovery and significantly lower restructuring and development start-up advertising costs
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