

ASX Announcement

11 November 2021

2021 Annual General Meeting – Chairman & CEO Addresses

Estia Health Limited (**Estia Health**) (ASX:EHE) provides the attached Chairman's Address and CEO's Address to be delivered at today's Annual General Meeting commencing at 1.00pm AEDT.

The webcast of the AGM can be joined at: www.agmlive.link/EHE21.

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

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Estia Health Limited Annual General Meeting 11 November 2021

Chairman's Address – Dr Gary Weiss AM

Last year I said that 2020 had been an extraordinarily challenging year.

At that time Australia was emerging from the second wave of the COVID-19 pandemic and we remember the significant impact that had on the community and particularly the residential aged care sector in Victoria.

Although our operations in other States had been affected, the second wave in Victoria in from July 2020 onwards was particularly serious for the entire residential aged care sector, with over 150 homes experiencing outbreaks across the State. 11 Estia homes in Victoria experienced outbreaks impacting residents and staff. Sadly, 36 of our residents died after testing positive for COVID-19. Our thoughts then and now are with the families and friends of all who have been impacted.

That period saw the Estia family come together as residents, their friends and families and our staff were called upon to do quite extraordinary things in circumstances not previously envisaged or experienced.

COVID-19 has been just one of the significant issues the Board and management of Estia have been navigating in an unforgiving business environment over recent times. Margin compression has persisted for several years resulting from Government funding levels not keeping pace with increased input costs. This has impacted operating metrics and investment returns in the sector. The Royal Commission into the aged care sector – which cast a pall over the sector generally - lasted more than two years and delivered its final report in February 2021 with 148 recommendations for change.

While much still needs to be done it does appear that we may have weathered the worst of these challenges.

Although we will be required to deal with COVID-19 related issues well into the future, it does appear that the most difficult phase of the pandemic may be behind us, due to different policy settings as well as the positive impact of Australia's high vaccination rates. This does not mean that we can afford to be complacent as we seek to find new ways of managing our homes in what will become a "COVID normal" operating environment. Ian will talk more about what this may mean for our business.

Importantly, the Government's initial responses to the Royal Commission into Aged Care Quality and Safety are encouraging. Although there remains detail to be worked through in

several key areas, it is apparent that the Commonwealth is already implementing a broad reform agenda within a tight timeframe.

For a number of years, Estia has advocated for many of the signature reforms recommended by the Royal Commission. We believe that when implemented, the reforms will result in a higher quality aged care sector, better able to meet the expectations of residents and the community. However, in order to deliver a sustainable sector, the key uncertainties surrounding funding and financing need to be resolved in order to support the investment required to meet the considerable demands that will be placed on the sector in coming years as the population of older people in Australia increases.

Reform

In May 2021, the Australian Government published its initial response to the Royal Commission's report, accepting 126 of the 148 recommendations made in the report, with the 2021 Federal Budget including \$17.7 billion of additional funding for the sector over four years.

The most significant impact of the Government response to date is the move to more competitive markets with the abolition of the Aged Care Approvals Round licencing system, or ACAR, and with that, the current restrictions on the number and location of residential aged care places.

The removal of the bed licencing regime will create a more competitive environment where providers will have the opportunity to invest in previously protected markets and to attract residents by providing high quality care in locations preferred by consumers.

Overall we would expect the new arrangements to see a reduction in the number of poor-quality homes and services in the sector, and an increase in the supply of new, higher quality homes and services delivering real choice to consumers. Competing in such an environment and being able to meet higher levels of governance, financial reporting and prudential standards will be challenging for a number of providers in the sector.

Senior Australians will benefit from increased competition in the sector which we believe will positively impact the quality of accommodation and service offerings. Residential aged care providers will have the ability to adjust and expand services to better meet demand. This reform could prove to be a major catalyst for sector consolidation and the creation of a stronger, more competitive residential aged care sector driven by consumer choice.

Well-resourced residential aged care providers like Estia Health, with robust governance systems, committed management, skilled employees and strong balance sheets are well placed to play a leading role in the significant restructuring of the sector likely to eventuate.

We are developing plans to improve or expand some of our existing homes and to establish new homes. We have renewed our committed \$330 million banking facilities which enable us to fund this expansion. However, we remain in cautionary mode with the

deployment of capital for these projects pending finalisation of ACAR transition arrangements and clarity over future funding and financing levels.

While the sector is transitioning to this new model, the ultimate outcome will be that real choice in residential aged care will be increasingly available for older Australians.

Changes ahead also include enhanced regulatory, governance and prudential requirements, but we do not expect these will require significant adjustment to our current reporting regimes given the governance and reporting standards required of an ASX listed company.

Performance for 12 months to 30 June 2021

Estia Health returned to profit and reinstated shareholder dividends in the period. I believe we have done well to preserve operating performance and balance sheet strength given the significant issues facing our business that I have described.

Net profit was \$6 million on 4.4 per cent higher revenue and after settling the class action for \$12 million. The class action dated back to 2016 and was settled without admission of liability.

Your Directors declared a fully franked final and total dividend for the year of 2.3 cents a share, representing a payout of 100% of NPAT for the period.

Your company is in a strong financial position with net bank debt of \$81 million on 30 June 2021 and available liquidity at that date of \$244 million.

As Ian will detail, Estia Health's financial and operating performance reflects the fundamental strength of your Company as a resilient, well-governed and well-capitalised residential aged care provider.

Our strategic priorities are to continually improve the quality of care for our residents, while actively managing our portfolio of homes, including seeking opportunities to redevelop and improve existing homes. The ACAR reforms also support our ability to renew, expand or retire older, less contemporary homes and build new homes to meet the future needs and increasing community expectations for residential aged care.

During the 2021 financial year we invested \$49 million of capital in our portfolio.

We opened our new home in Blakehurst, Sydney in February. The home achieved strong occupancy growth reaching 71% at 20 August 2021, which it has increased to 77% as of yesterday despite the Greater Sydney lockdown and access restrictions. Blakehurst also includes our first Wellness Centre which provides reablement services to residents as well as the broader community.

We have also announced the closure of two older Victorian homes, Keilor Downs and more recently Prahran, and will continue to actively manage the portfolio and retire homes where we believe that redevelopment options will not provide appropriate returns.

We will be commencing construction of two new homes at Aberglasslyn and St Ives both in New South Wales this financial year. Capital investment on these two new homes is expected to be \$83 million.

Sustainability

Our corporate strategy is reflected in five strategic pillars: Care, Customer, People, Community and Growth, underpinned by our 2020-24 Sustainability Strategy that is value-creating and intrinsic to the achievement of the five pillars and the success of our business.

We recognise that the long-term viability and profitability of our organisation depends on the wellbeing of our people, supporting and integrating within our local communities and the continued health of the natural environments we rely upon.

We understand and are committed to fulfilling our responsibility to create social and economic value for our residents, their families, our employees and the communities in which we operate. The targets we have set ourselves for 2024 will create a lasting positive impact for all stakeholders in our business and in our communities and help us achieve our vision of making trusted residential aged care accessible to all.

Testament to our commitment to sustainability, we completed the refinancing of our existing loan facility with a new Sustainability Linked Syndicated Financing Agreement in October 2021. Independently assessed against the Sustainability Linked Loan Principles, this facility has ambitious and meaningful targets aligned with the core areas of Estia's existing Sustainability Strategy.

The loan targets are focused on improved resident engagement and satisfaction, employee wellbeing, reducing greenhouse gas emissions and reducing the impacts of our assets through the application of NABERS Residential Aged Care standards.

Our Residents

The care and wellbeing of our residents is central to all what we do.

The changing regulatory environment has required investment in additional resources and systems. This has included strengthening our administration of the Serious Incident Response Scheme. Our Clinical Governance Committee provides insights and advice on the important matters that strengthen our clinical performance and we greatly value the guidance provided by the Committee's independent Chair, Professor Simon Wilcock.

We are currently implementing electronic medication management and prescribing systems into our homes to further support the quality use of medicines and provide greater surveillance over the use of psychotropic drugs, anti-microbial stewardship and surveillance over prescribing practices.

Importantly, we have significantly enhanced the infection prevention and control resources in all of our homes and have invested in education, reference materials and the independent auditing and oversight of our infection control practices.

Workforce

Over the next 20 years the number of Australians aged over 85 years is forecast to double to one million people. This will create ongoing demand for residential aged care services. Meeting that demand with quality care will require not only good governance, experienced management and financial strength, but also a large and skilled workforce.

The shortage of skilled people facing many Australian industries is well documented. This is particularly true of the broader healthcare sector in Australia which has typically relied on the skilled migration program. The healthcare workforce is under considerable pressure and Estia sees this as a critical operating priority for our operations.

We have taken a number of steps to improve the Company's ability to compete for scarce talent, including opportunities for career development through our own *EstiaAcademy*. We have expanded e-learning capabilities; boosted the number of places available for practical work experience to introduce students to the careers available in the sector; and reinforced our ongoing commitment to diversity and gender equality employment.

Future Prospects

As our communities continue to adapt to changes brought about by the impact of COVID-19, Estia Health remains committed to deploying the financial and operational resources of the company to meet the challenges of providing care and maintaining the safety and wellbeing of our residents and staff. It is not a responsibility we take lightly.

Our balance sheet strength, highly credentialed executive and leadership team, diversified portfolio of 69 homes and our unrelenting focus on quality and governance, allows the Estia board to view the future with confidence and cautious optimism.

We are hopeful that the long-anticipated redesign and reform of the sector will create investment opportunities for organisations like Estia Health with the capacity, culture and governance to fulfil the role of providing the highest quality and affordable residential aged care for all Australians.

Share Buy-Back

We are also announcing today the commencement of a Share Buy-Back of up to 10% of the Company's issued share capital.

The combination of the Royal Commission into Aged Care Quality and Safety and the COVID-19 pandemic has served to depress market sentiment for those ASX-listed companies involved in the aged care sector. The Board considers that the Company's current share price does not appropriately reflect the intrinsic value of the Company's

assets and business and accordingly has determined to establish an on-market Share Buy-Back scheme which will be conducted in accordance with the ASX rules.

The Buy-Back is also part of the Company's capital management strategy in maintaining a balance between operating a high quality and sustainable business and preserving flexibility to invest capital for future value-accretive opportunities, while seeking to provide returns to shareholders through the reinstatement of our target of a dividend payout ratio of 70-100% of NPAT, subject to prevailing circumstances. The Buy-Back will be funded from the Company's existing cash reserves and committed debt facilities.

As a result of our disciplined and prudent approach to the operation of our business and the preservation of capital during the extremely challenging and uncertain times over the last few years, Estia is well-capitalised. Our net bank debt at 31 October was \$57.5 million, and our renewed banking facilities of \$330 million (with a further \$170 million accordion facility) provide significant capacity within our stated target gearing ratio of 1.4 - 1.9X EBITDA.

The Buy-Back itself should not impact the company's ability to progress a disciplined growth strategy as the Government's Aged Care reform package progresses, in particular the abolition of the ACAR licencing restrictions, nor our ability to continue to pay dividends in line with the company's targeted payout ratio.

The Company intends to commence the Share Buy-Back on 26 November for up to a 12-month period on the terms specified in the Appendix 3C released to the ASX today. Under the Corporations Act, the Company may buy back up to 10% of issued capital in any 12 month period without shareholder approval.

The timing and actual number of shares to be purchased will be subject to the prevailing share price, market conditions, as well as any incremental capital requirements at the time and other considerations including any unforeseen circumstances. As a result, shareholders should be aware that there is no certainty that the Company will acquire any or all permitted shares under the Share Buy-Back and the Company reserves the right to suspend or terminate the Buy-Back at any time.

The Executive Team at Estia Health is highly regarded by investors and analysts. They have shown extraordinary commitment and dedication during the year. You will have noted in the Remuneration Report that although the key management personnel and executive team achieved STI targets during the year, the Board and management determined it was appropriate, in the circumstances, to forgo these for the period.

I would like to thank my fellow Directors, and our Executive group who have worked closely and collaboratively in delivering high quality care to our residents. and the 7,500 members of our Estia team who have been unwavering in their dedication and demonstrated great kindness to our residents while working in very difficult conditions through much of the year.

Before I call on Ian to address you let me also thank you, our shareholders, for your ongoing support and belief in Estia Health's mission to deliver person-centred services and high quality, safe clinical care for each of our 8,000 residents we care for each year.

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CEO's Address - Mr Ian Thorley

Thank you Gary and good afternoon everyone.

The challenges of the last 2 years have been extraordinary. Throughout all that we have experienced, the skill, compassion and resilience of our staff in focusing on the welfare of our residents has been exemplary.

I believe that the way we managed these challenges has resulted in Estia becoming operationally more agile and culturally stronger.

Today, we are rapidly evolving our operating protocols for the new "COVID normal" business environment. We expect to be in this dynamic state for some time, adapting our admission protocols, visiting arrangements, the use of PPE as the incidence of community infection varies, and we gain greater knowledge and experience in managing COVID in an open economy free of lock downs. Of course residential aged care will still face particular challenges.

We will need to strike a balance between providing open access that is so important for resident welfare and management practices that support the safety of residents and staff.

Vaccination is the big differentiator in the way in which we will manage COVID-19. All of our active staff are vaccinated, except the very limited number who meet the Commonwealth medical exemption requirements.

As of yesterday, 90% of our residents had received at least one dose, and 85% are double vaccinated. The recent experience across the residential care sector demonstrates that vaccination has reduced death rates and serious illness for those residents and staff exposed to the virus. We continue to encourage and facilitate the vaccination of all residents and see the booster round of vaccination commencing shortly as yet another opportunity to increase vaccination rates.

A number of our homes have been impacted by the Delta variant in the last 3 months. The outbreak management practices applied by State authorities are changing to more of a risk rated approach rather than automatic full lock down for an extended period. However, these protocols are not uniform across all States. We expect that shorter lock downs will occur with some regularity but where the exposure is limited, homes will return to normal operations relatively quickly and extensive staff furloughing will not be implemented as experienced in the second waves in 2020.

Since July until yesterday, we have had 16 homes with single or limited cases of COVID positive results in staff or residents in NSW and Victoria with no associated serious illness or death.

We have experienced a more significant outbreak at South Morang in Victoria where 56 residents and 23 staff have tested positive, and sadly 8 residents have died subsequent to testing positive to COVID-19. We extend our condolences to the families for their loss.

Our experience, is what is being seen more broadly across the sector, that is, numerous exposures with minimal impact and fewer larger and more significant outbreaks.

A high level of vigilance will be required as vaccinated people can be infected but present asymptotically. We have implemented rapid antigen testing in homes in high-risk communities to help us manage this risk and we have been successful in identifying COVID-19 positive rapid antigen results that have arguably prevented greater exposures.

Resident Services

During the year we conducted extensive satisfaction surveys to understand our residents needs and also how we were specifically addressing their requirements during the pandemic. Notwithstanding all the restrictions that were required and even with the challenges we have all faced over the last 12 months, we have slightly increased the group wide customer satisfaction scores to 93.7%

Meeting the nutritional needs of our residents and providing an enjoyable dining experience are important service standards in Estia homes.

Our menus are designed around a cook fresh philosophy and use of local products. Our chefs are supported with regular training to improve the delivery of food services. During the year we introduced natural fortification to reduce the use of dietary supplements to support resident weight maintenance. Initiatives such as these are an important part of our differentiated service offering and stand in contrast to some of the issues relating to food brought before the Royal Commission.

We continue to evolve the design of our homes, with a focus on providing smaller more intimate spaces for our residents and to include the “group housing” thinking that was examined in the Royal Commission. Designing smaller dining, lounge and lifestyle amenities in what externally appears as a conventional residential aged care home, is a practical solution to de-institutionalising residential aged care particularly in metropolitan areas where land is limited and small group cluster housing is just not possible.

Performance

As the Chairman stated, we have confidently navigated the challenges presented over the last year. We are pleased with what can be considered a resilient financial and operating performance. Our balance sheet strength, diversified portfolio and management depth has served us well.

Average occupancy for mature homes across the whole portfolio for the full year was 91.2%. Occupancy in Victoria averaged 85.9% and outside of Victoria averaged 94.0% over the year.

We achieved net refundable accommodation deposit or RAD inflows of \$30.6 million including \$5.9 million from our new home in Blakehurst which opened in February 2021. Total Group RAD balances at 30 June were \$863.9 million.

Our balance sheet is in a strong position, with high liquidity, low debt and a solid equity position with \$1.9bn of gross assets supported by more than \$615 million of shareholders' funds at year end. The value of the underlying asset portfolio has been demonstrated by the profit generated from the sale of surplus land assets during the year.

Looking at the current year, Quarter 1 trading performance has been impacted by the extended lockdowns in NSW and Victoria, which have only recently started to ease. Notwithstanding, our occupancy across the whole portfolio at 31 October was 92.8% broadly constant with that reported at 23 August. Cash flows have been solid and as Gary stated, our debt level at 31 October had been further reduced to \$57.5m.

Moving on to regulatory compliance, 95 accreditation visits were made to 60 of our homes during the year.

We achieved 97 per cent success rate across all the quality outcomes examined by the Aged Care Quality and Safety Commission. In all 10 homes had a report of unmet outcomes which are being addressed within the expected timeframes. These results did not indicate systemic failure of care.

Our objective is to maintain a 100% compliance record at all times and we have made additional resources available to meet the enhanced regulatory requirements that have been introduced post the Royal Commission. All Estia homes have remained fully accredited during the year.

The incidence of complaints referred to the ACQSC are below the sector average.

Reform

Although the Final Report of the Royal Commission was criticized for the lack of clear reform pathways, this has not impeded the Government response. The reform agenda is occurring at some pace as the 126 recommendations accepted by Government are being developed and a number already passed into legislation.

The Federal Budget response saw a headline spending increase of \$17.7 billion for the sector over four years. This amount also includes funding for the administration of regulatory bodies and agencies and the cost of establishing new programs and systems. The home care reforms are also part of this funding package.

We are supportive of the Government's response and look forward to seeing further detail on the reforms, and the financial and operational impact that these will have on the sector and individual providers.

We are participating in the consultation process of the major reforms. We are a member of the Aged Care Reform Network which I currently Chair, and which is dedicated to working collaboratively with Government to provide solutions to the way in which the change agenda can be most effectively implemented.

Workforce

Gary noted the focus on our people. Workforce is potentially the most significant issue to be faced by the aged care sector in the immediate to mid-term.

The pausing of skilled migration and the growth in the demands of the broader health care sector will see tighter supply. The ramp up of the NDIS and the 80,000 additional home care packages over two years will also contribute to carer shortages.

We have a number of multi-year workforce initiatives to ensure that Estia can compete for talent.

Over 92% of the hours worked in our homes is undertaken by permanent employees which is above the sector performance. We believe providing permanent employment for our staff is important for attraction and retention but moreover, for the establishment of a strong culture and underpinning high clinical standards. Our turnover rates did increase during the year as is the trend within the sector but again our experience is better than the broader sector performance. We also saw an increase in the LTIFR from 4.9 last year to 11.9 at the 30th June 2021 and have a commitment to returning to the sector leading position we had previously achieved.

During the year we have invested in our digital learning platforms and have partnered with tertiary institutions to support Registered Nurses develop careers in residential aged care.

Our central support teams in Melbourne and Sydney have worked remotely for almost the entire year and to support employees working from home for extended periods, as well as our front-line staff, we launched *EstiaWell*, a new mental health and well-being program. All of our team have been remarkable in their dedication to caring for our residents in sometimes quite extremely testing circumstances.

Our diversity and gender equality programs have seen the reduction in gender pay gaps and this is an ongoing and important area of focus. Eight of our Board and Senior executives, or 47%, are female.

Looking to the future

We believe that residential aged care will remain a fundamental component of the health care system.

The demographic trends that will drive demand for all forms of aged care services over the coming 20 years are well noted and this will increase participation across the aged care sector. We don't believe that the additional 80,000 home care places will significantly impact on high acuity residential aged care services over the medium term.

As Gary noted, the most significant impact of the Government reforms is a movement to a more competitive market through the abolition of ACAR. Publishing performance outcomes and the introduction of the Star Rating System from December 2022 will enhance consumer choice and ultimately improve care standards, increase the range of services, support innovation and improve asset quality.

It is hard to see how this will not result in a restructuring of the sector as previously protected markets open up to competition. This will see a flight to quality providers for both consumers and workforce, the latter being more discerning in choosing companies who can best meet their professional aspirations.

The investment opportunities will be significant for well capitalised operators. The Aged Care Financing Authority (ACFA) in the 2020 Report to Government highlighted that upward of a quarter of homes had occupancy levels they would not have enjoyed but for the protected markets. In the 2021 Report ACFA estimated that 10% of the beds in residential aged care facilities were multi bed ward type configuration. This type of amenity will not be competitive when approved providers have the ability to invest in those markets.

Our growth model is focused on the opportunities that the ACAR reforms present.

The restructuring of the sector will take many forms: including M&A, transition out of the markets by closure of homes that are unattractive and without the value of licences that previously traded very strongly with prices of up to \$80k each on the secondary market.

Clearly the new pricing model, the AN ACC will need to provide appropriate returns on capital.

Over the past few years our very disciplined growth activities have seen our new homes gain strong support in their markets with strong occupancy growth, attractive RAD flows and top quartile operating returns. This is a result of our strong reputation, referer support and matching these developments with the needs of their local communities. Very typically, these new homes have in filled existing operating clusters.

The abolition of ACAR now allows us to have more control over our greenfield and brownfield opportunities, whether that be opening new homes in areas where we are not represented or expanding the footprint of our smaller, older homes in locations where we are confident of demand. It is now for us to determine where and when to expand, rather than growth being reliant on the grant of licences.

I share Gary's cautious optimism. After years of inactivity major reforms are being implemented. The industry is growing in complexity, and the acuity of our residents is increasing as the incidence of residents presenting with dementia and multiple co-morbidities increases.

This will see a growing sophistication of aged care operations and companies like Estia with scale, systems, good governance and leadership are well positioned to succeed in the changes that will occur as has occurred in other parts of Australia's health care system over the last two decades.

None of the achievements of the last 18 months would have been possible without the dedication of our 7,500 strong team at Estia and the strong leadership of our homes and the central service teams. I thank all for their support and look forward to the opportunities and challenges ahead.

I would like to thank the Board for their guidance, support and setting the high standards of governance that reinforces our culture and lifts the performance of the Executive team.

I also wish to thank and acknowledge our residents and their families, who every day place their trust in us to deliver on our purpose of "*Enriching and celebrating lives together.*"

And finally, to all our shareholders thank you for your support and belief in Estia.

Thank you and let me hand back to Gary.