ESTIA HEALTH
NSW Office
Level 9, 227 Elizabeth Street
Sydney, New South Wales 2000
T 02 9265 7900
E investor@estiahealth.com.au
estiahealth.com.au

ASX Announcement

25 November 2021

Update on Accounting (non-cash) implications of the abolition of Bed Licences

Estia Health Ltd (ASX:EHE) (the "Company", "Estia") provides the following update in relation to the accounting (non-cash) implications for carrying value of bed licences, following the Federal Government's decision to abolish the Aged Care Allocation Round ("ACAR"). Estia supports the Federal Government's decision and believes this reform will be beneficial for aged care residents, and the sector, and positive for the Estia Group's growth prospects.

- ACAR to be abolished effective at the end of June 2024.
- Under transitional arrangements, Approved Providers will have the ability to secure new licences before 1 July 2024.
- Consideration of the appropriate accounting (non-cash) treatment of existing bed licence values is ongoing, ranging from full impairment to partial amortisation.
- A further update will be provided once the treatment has been determined.

Background

In September the Government confirmed its decision to abolish the ACAR and associated supply restrictions on bed licences and advised this will take effect at the end of June 2024. Importantly, the Government outlined transitional arrangements prior to that date to allow Approved Providers the ability to secure access to subsidised fees under the Aged Care Act if they have beds ready to operate but do not have existing licences.

Accounting Implications

Estia notes that that the secondary market for bed licences has to all intents and purposes ceased to operate. Discussions are ongoing with various parties, including Estia's external auditors, to confirm the (non-cash) accounting treatment required under accounting standards. Treatments range from immediate full impairment to amortisation over the period to 30 June 2024.

Potential Accounting Impacts

The Group's balance sheet at 30 June 2021 included a value of $221 million relating to bed licences, and an associated deferred tax liability of $65 million.

Under full impairment, the Full Year FY22 Group Consolidated Financial Statements would record a one-off impairment charge of ~$156 million, net of tax. There would be no impact in future years.

Under amortisation, the Full Year FY22 Group Consolidated Financial Statements would record an amortisation charge of ~$42m, net of tax, and an amortisation charge of ~$57m in each of the subsequent financial years FY23 and FY24.

Both approaches represent non-cash, non-covenant impacting accounting adjustments. It is not expected that either approach would of itself impact or restrain the ability of the directors of the holding company to be able to pay dividends in line with expectations prior to the changes.

The Company will provide a further update once the treatment has been determined.

Estia's Chairman Dr Gary Weiss AM reported to the Company's AGM on 6 November 2021, "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.

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"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."

Approved for release by the Board of Estia Health Limited.

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Further Enquiries:

Media	**Investors**
Julie Connolly John Connolly & Partners jlc@jcp.com.au Tel +61 2 9232 1033	Steve Lemlin – Chief Financial Officer steve.lemlin@estiahealth.com.au or investor@estiahealth.com.au