REGIS HEALTHCARE LIMITED

ABN 11 125 203 054

Level 2, 615 Dandenong Road
Armadale VIC 3143

t. 03 8573 0444

regis@regis.com.au
regis.com.au

ASX ANNOUNCEMENT

27 August 2020

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

Regis Healthcare: FY20 Full-Year Financial Results

Regis Healthcare Limited (ASX:REG) today announced a statutory net profit after tax of $3.8 million for the financial year ended 30 June 2020, including a non-cash goodwill impairment charge of $20.6 million. Underlying net profit after tax (before non-cash goodwill impairment charge and non-recurring items) was $21.5 million, down 54% compared to the prior corresponding period of $47.2 million.

Key Points:

- Revenue from services of $677.9 million, up 4.8% on pcp
- Underlying EBITDA[i] (pre-AASB 16 Leases) of $85.1 million, down 23.6% on pcp
- Average occupancy of 90.3% (2019: 91.7%) across steady-state (mature) residential aged care homes
- Growth in operational places to 7,218 following acquisition of business and assets of Lower Burdekin Home for the Aged Society (LBHA) on 1 March 2020
- Net operating cash flow of $127.2 million including net RAD receipts of $69.8 million
- Net debt of $236.7 million - reduction of $66.5 million (21.9%) from 30 June 2019
- FY20 deferred interim dividend to be paid on 30 September 2020
- No final dividend was determined by the Board

Commenting on the financial results, Regis' Managing Director and Chief Executive Officer, Dr Linda Mellors said, "Despite the current impact of the COVID-19 pandemic and continued financial pressures, Regis continues to maintain its high-quality care and service levels. The financial pressure largely reflects the on-going issues relating to inadequate Federal Government funding for the aged care sector. With costs growing at a faster rate than revenue, this continues to have a significant negative impact on the financial results of the Company. This lack of funding, together with the negative impacts of the COVID-19 pandemic and the extension to the Royal Commission into Aged Care Quality and Safety, has created more uncertainty in the aged care sector and inevitably affected the business. New residents have not been entering care in their usual numbers and this is a nationwide trend."

COVID-19 Pandemic

A key focus of the Company is clinical leadership and clinical governance. The work conducted in this area, including (i) the appointment of two key clinical roles being the Executive General Manager, Clinical and Care Practice and National Infection Control Manager; and (ii) the development of a Pre-Pandemic Business Continuity Plan and Outbreak Management Plan has placed the Company in a strong position to respond to the COVID-19 challenge. The impact of the COVID-19 pandemic led the Company to introduce Stringent Access Controls across its 65 residential aged care homes on 17 March 2020 for an initial two-week period. After reviewing these controls, they continue to be amended across all homes in response to health directions, various outbreaks or "hot spot" activity.

Dr Mellors said, "The Company's executive and senior management teams continue to meet regularly to monitor, assess and amend the clinical strategies and controls across all homes and have been well supported by our Board of Directors. The Company's dedicated staff have demonstrated their strong commitment to our residents, clients and families by rapidly undertaking all required training, adhering to temporary and ongoing regulatory requirements, learning new technologies and, most importantly, providing care and services with kindness and compassion at a time of high stress."

COVID-19 Outbreaks

Regis has experienced COVID-19 outbreaks at several of its Victorian homes, including Brighton, during the second wave of the virus. The Company immediately implemented its Outbreak Management Plan across the impacted homes. Residents have continued to be provided with care, services and support, and the Company has provided, at a minimum, daily updates to the homes' residents, families and employees. Dr Mellors said, "On behalf of the Regis Board, management and staff, we offer our condolences to the families of residents who have passed away with the virus."

The Company continues to work closely with regulatory and health authorities.

Financial Results

$A millions	Reported FY20	Underlying FY20	AASB 16 Impact FY20	Underlying Pre-AASB 16 FY20	Underlying FY19	Underlying Pre-AASB 16 △ FY19 to FY20
Revenue from Services	677.9	677.9	-	677.9	646.9	4.8%
EBITDA[i]	125.4	143.9	58.8	85.1	111.4	(23.6%)
NPAT	3.8	21.5	-	21.5	47.2	(54.4%)
Occupancy (steady-state) %	90.3%	90.3%	-	90.3%	91.7%	(1.4pts)
Staff Expenses / Revenue %[ii]	72.6%	72.6%	-	72.6%	69.3%	3.2pts
Capital Expenditure	44.0	44.0	-	44.0	68.7	(36.0%)
Net RAD Cash Inflow	69.8	69.8	-	69.8	143.4	(51.3%)
Net Operating Cash Flow	127.2	127.2	-	127.2	220.1	(42.2%)
Net Debt	236.7	236.7	-	236.7	303.2	(21.9%)
Basic EPS (cents per share)	1.25	7.14	-	7.14	15.69	(54.4%)

Trading Performance

Revenue from services for the financial year ended 30 June 2020 included:

- $6.4 million (2019: $10.8 million) of additional Federal Government funding received in June 2020;
- $1.8 million temporary uplift in the Aged Care Funding Instrument (ACFI); and
- 4-month contribution of $4.9 million from LBHA business and assets acquisition.

Consistent with industry trend and COVID-19 impact, occupancy rates across the steady-state (mature) residential aged care portfolio reduced to an average of 90.3% (2019: 91.7%).

The Company has continued to incur increased staff costs and other expenses which were only partly offset by the indexation increase applied by the Federal Government to aged care funding. In addition, during the year, the Company incurred direct COVID-19 related costs of approximately $3.5 million including additional personal protective equipment, staff and related costs, cleaning and security expenses. Further COVID-19 related expenses have been incurred since 30 June 2020.

In April 2020, the Company undertook a significant restructuring of its back-office functions resulting in approximately 50 roles being made redundant. Redundancy costs of $1.6 million were incurred as part of this process which is expected to provide an on-going annual cost benefit as a result. Other cost saving initiatives included pay freezes for executives and back-office staff and the cancellation of FY20 incentive payments for executives and managers.

In addition, during the second half of the financial year, the Company reviewed its capitalisation of assets policy resulting in write-offs in several areas.

The Group's reported net profit after income tax of $3.8 million (2019: reported net profit after tax of $50.9 million) included the following items (after tax):

- Non-cash goodwill impairment charge of $20.6 million (refer below);
- Acquisition related expenses of $0.8 million;
- Gain on acquisition of LBHA business and assets of $4.6 million; and
- Costs incurred in responding to the Royal Commission of $0.9 million.

Non-Cash Goodwill Impairment Charge

The Company undertook an assessment of the carrying value of assets as part of its full-year accounts process. This assessment resulted in the recognition of a non-cash goodwill impairment charge of $20.6 million in relation to the business' Western Australian operations.

The impairment charge has no impact on the Company's debt facilities or compliance with bank covenant requirements.

Acquisitions and Development

On 1 March 2020, the Company acquired two aged care homes with a total capacity of 173 beds from LBHA in Northern Queensland. Net consideration paid was $nil with net assets acquired of $4.6 million. LBHA represented 100% of capacity in the local market and integration of the two homes is progressing well.

While the Company has capacity for inorganic growth and continues to assess opportunities as they arise, the Board has made the prudent decision to pause a number of planned development activities pending meaningful funding reform and a clearer Government policy environment.

Cash Flow and Net Debt

Net cash flows from operating activities in the financial year ended 30 June 2020 were $127.2 million (2019: $220.1 million). Net cash inflows were negatively impacted by reduced earnings, lower contribution from 2019 ramp-up homes that have been approaching mature occupancy levels, and the impact of COVID-19 on steady-state (mature) homes.

Refundable Accommodation Deposits (RAD) and accommodation bond net cash inflow was $69.8 million (2019: $143.4 million). RAD contributions were largely attributable to ten new homes that continue to ramp-up but were negative overall in the steady-state (mature) homes, particularly in the March-June 2020 COVID-19 pandemic period. Total RAD net cash inflow during the second half of the financial year was $22.7 million.

During the year, the Company invested $44.0 million (2019: $68.7 million) in capital expenditure for:

- Land acquisition;
- The planning and designing of new homes;
- Refurbishment of existing homes; and
- Ongoing maintenance capital expenditure at existing homes.

During the year, the Company repaid $71.0 million (2019: $109.0 million) of bank borrowings assisted by the net RAD cash flow in the year. On 5 June 2020, the Company refinanced a $150 million tranche of its banking facilities to a maturity date of 31 January 2022 (previously 25 May 2021). Net debt at 30 June 2020 of $236.7 million (2019: $303.2 million) represented a 22% reduction on the previous corresponding period.

The Company has debt facilities of $520.0 million[iii] of which approximately $278.2 million remained undrawn at 30 June 2020.

Market Position and Strategy

Investment in new homes has slowed due to the lack of certainty in future Federal Government funding and policy. Accordingly, the Company has paused several projects in its development program although the commencement of a greenfield development in Camberwell, Victoria is planned for later in the 2021 financial year (subject to market conditions).

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.

Cyber Security Incident

On 3 August 2020, the Company advised the ASX that it had been the target of a cyber security attack. The Company promptly implemented its back-up and business continuity systems and the incident did not affect the delivery of resident care or services. The incident has not materially impacted the Company's day-to-day operations.

Sale of Vacant Land

Subsequent to 30 June 2020, the Board of Directors resolved to sell a parcel of land situated at Palm Beach, Queensland, which was originally acquired for development as a residential aged care home. In August 2020, a contract of sale was executed with a third party to sell the land for $21 million with settlement to occur by 31 December 2020.

Dividends

On 1 April 2020, the Board resolved to defer the payment of the FY20 interim dividend ($12.1 million). The interim dividend (50% franked) will be paid on 30 September 2020.

Due to ongoing uncertainty caused by broad industry dynamics and the COVID-19 pandemic, no final dividend was determined by the Board.

Outlook

Dr Mellors said, "Notwithstanding the difficult year we have just experienced, our focus remains on ensuring the well-being of our residents, clients and employees. Business performance improvements are focussed on occupancy and earnings uplift strategies and disciplined cost management. We will continue to review acquisition and development opportunities whilst conservatively managing our balance sheet and debt position."

Given the current macro-economic environment, including the ongoing impact of the COVID-19 pandemic and the Royal Commission into Aged Care Quality and Safety, the Board does not believe it to be prudent to put forward any earnings guidance at this stage. A business update will be provided at the Annual General Meeting to be held on 27 October 2020.

Dr Mellors said, "I would like to take this opportunity to thank our dedicated and hard-working staff for the quality of care provided to our residents during what continues to be a difficult period."

For further information, contact:

Rick Rostolis, Chief Financial Officer
T: 03 8573 0444, E: rrostolis@regis.com.au

A teleconference and webcast will be held by Regis' Managing Director & CEO Dr Linda Mellors and CFO Mr Rick Rostolis at 10am 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.

---

i Underlying EBITDA excludes non-cash goodwill impairment charge, Royal Commission costs, acquisition related expenses and gain on acquisition of LBHA

ii Staff expenses include impact of COVID-19, redundancy costs, Royal Commission costs and other one-off items

iii Includes $25 million bank overdraft facility. Excludes $20 million bank guarantee facility