ESTIA HEALTH

FY2016 FULL YEAR RESULTS

Highlights

- Revenue up 50% to $446.5m
- EBITDA up 31% to $92.7m
- NPAT up 16% to $51.8m
- EPS up 16% to 28.3 cents per share
- Net operating cash flow up 25% to $79m with 88% cash conversion rate
- Net RAD receipts of $76.4m; reinvested to fund growth
- Overall occupancy up to 94.4% from 93.8% in H2 2015 as transition assets move closer to maturity
- Management reorganisation: Steven Boggiano appointed as Acting CFO; Joe Genova takes up role of Commercial Director
- Final dividend of 12.8c per share (full franked) taking total dividend for FY2016 to 25.6c per share

Overview

Estia Health Limited (ASX: EHE) ("Estia" or the "Company") today released its FY2016 results for the financial year ending 30 June 2016. Revenue of $446.5m increased 50% on FY2015. Underlying earnings before interest, taxation, depreciation and amortization (EBITDA), which excludes acquisition related costs, was up 31% to $92.7m. Underlying net profit after tax (NPAT) was up 16% to $51.8m. Underlying earnings per share (EPS) were up 16% to 28.3 cents per share.

Underlying EBITDA was 2.4% below the guidance provided at the half year results in February. Underlying NPAT and EPS were 7.5% and 5.7% below guidance respectively. Underlying NPAT was impacted by additional depreciation resulting from positive independent revaluations of purchased homes at the year-end; and higher than anticipated finance costs due to the timing of operating cash flows and cash investments in the Company's development program.

Estia CEO, Paul Gregersen said that despite coming in below guidance the business performance was strong, driven by improvements to the Company's existing and acquired assets, a full year contribution from homes acquired in FY2015 and a positive contribution from Kennedy Health Care (Kennedy) and the other FY2016 acquisitions.

"Clearly we're disappointed not to have reached our targets, but 31% growth in earnings for the full year – with a noticeable step change in performance during the second half - demonstrates the successful delivery of our growth strategy. This included a positive contribution from acquisitions and we are particularly pleased with the performance of Kennedy. Our program of enhancing the quality and configuration of homes across the portfolio is driving steady growth in occupancy," Mr Gregersen said.

Average occupancy in the second half of the year was 94.4%, continuing the positive trajectory from the first half (94.2%) and H2 2015 (93.8%) as the Company's acquired assets move closer to maturity. The integration of Kennedy is tracking in line with plan. The acquisition included land with capacity to build 456 new places in the future.

Estia generated operating cash flows of $79m during the year, an increase of 25% on FY2015. In addition, net refundable accommodation deposit (RAD) receipts were $76.4m which were used to fund acquisitions and the Company's organic development program. The acquisition of Kennedy contributed to a shift in the consumer preferences for accommodation payments. 76% of new residents elected RADs as their preferred payment method.

Net debt at 30 June was $223.7m resulting in a net leverage ratio of 2.4 times. Estia invested $55.4m in land during FY2016 that will be income generating in future years once construction of new facilities is completed. A further payment of $41.0m was made to Kennedy on 1 July, funded by cash and debt.

Management Reorganisation

Estia has today also announced that Steven Boggiano, Chief Strategy Officer will replace Joe Genova as Acting CFO as the Company completes its shift to an organic-led growth strategy. Joe will take up the position of Commercial Director. Part of his responsibility will be to oversee a cost reduction program as the Company adapts to future changes in federal government aged care funding.

"This is a realignment of skills and experience in the executive team commensurate with our shift in priorities. Over the past twelve months we have completed our transition from acquisition-led growth, which Steven was driving, to our organic development program. Steven has a strong background in financial management and having been Chief Strategy Officer for the past 16 months, knows the business extremely well. As the Government's funding reductions are introduced, we need to focus both on new revenue levers and tightening of costs, an area where Joe's considerable industry knowledge will be far better utilized," Mr Gregersen said.

These changes are effective immediately and both roles will report to CEO Paul Gregersen.

Development program

Estia's organic development pipeline in FY2017 will include 110 new brownfield places, 94 of which opened in July 2016, and 180 greenfield places due to open in FY2018. This includes the Twin Waters development in Queensland in partnership with Living Choice Australia. Total capex investment for development is anticipated to be in the range of $36m to $44m in FY2017.

"Our strong operating cash flow and increase in net RADs provide good flexibility to fund our organic growth, with three quarters of new residents electing to pay via RADs. Continued improvement in occupancy levels, as our recently acquired homes move closer to maturity, will drive further cash flows while there is still plenty of headroom for net RAD growth. This gives us a clear pathway to leverage reduction with a medium term goal of net leverage of less than two times," Mr Gregersen said.

Dividend

The Board elected to pay a final dividend of 12.8 cents per share (fully franked) payable to shareholders on 7 November 2016. This takes the total dividend for the year to 25.6 cents per share. On 16th July 2015, the Estia Board implemented a Dividend Reinvestment Plan (DRP) to provide shareholders the opportunity to reinvest dividends in additional Estia shares. Further details related to the DRP are available on the Company's website www.estiahealth.com.au.

Outlook

"Our underlying business performance remains strong, underpinned by compelling industry fundamentals. Our absolute focus is on providing the highest quality aged care for residents and their families.

"Looking ahead, the Company's performance will be impacted by various factors, principally Government changes to ACFI and consumer preference for accommodation payments. We are initiating a number of actions to rebalance the impact of these changes both in introducing co-contribution revenue streams and reducing costs. We anticipate that EBITDA for FY2017 will be at least 13% ahead of underlying EBITDA for FY2016," Mr Gregersen concluded.

-ENDS-

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Results Teleconference Call

The Estia management team is hosting an investor teleconference briefing today, Monday 29th August 09.15 AEST. Participants can dial in using the numbers below to join the teleconference briefing. For countries not listed below, the international number can be used. You will also need to quote the conference ID provided.

Synchronised slides are available to be viewed at: http://webcast.openbriefing.com/2935

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