Company: Estia Health Limited
Title: FY17 Results
Date: 24 August 2017

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Estia Health, Full Year FY17 Results Conference Call. At this time all participants are in a listen only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Thursday, 24 August 2017.

I would now like to hand the conference over to your first speaker today, Norah Barlow CEO of Estia Health. Thank you and please go ahead.

Norah Barlow: Thank you Michelle. Welcome everyone to the 2017 Results Call for Estia. Both myself and Steve Lemlin are here today to present to you.

Thank you for joining us. I realise that we have a large number of companies presenting during this time and we appreciate your attendance with us. To start, I'd just like to ask everyone to keep their questions until the end as suggested at which time either myself or Steve will answer.

Our key highlights for the year are all outlined. We have an EBITDA figure of $86.5 million on an all-in basis as we've previously stated. We showed good improvement in our financial metrics and more importantly to me, in our operating performance. We are very pleased to see the measures that we put in place around our occupancy bear fruit and we got to 94% for H2, and we achieved a spot rate of 94.9 at 30 June 2017.

Our cash flows and RAD cash generation combined with the capital rates, contributed to our gearing ratio being 1.2 times the EBITDA, which leaves us in a strong position for both future growth and to whether any possible changes in RAD receipts which we don't foresee.

I've now almost fully established the new leadership teams and the Board now has two additional members, so a good all-round executive team in place. Our dividend payout ratio is set at a 100% of H2 NPAT, which is above our guidance which was a minimum of 70% of NPAT. Our guidance for next year is that we expect to deliver growth in EBITDA in the mid-single digit range and that’s obviously subject to no material changes in market or regulatory.

I'd just like to spend some time looking at the key financial metrics for the year. Our operating revenue increased and that had the full year impact of the 2016 acquisition, but note there were no acquisitions for 2017 included in that. Our EBITDA is in line with the guidance we provided when we restated and which we reaffirmed later in the year. It needs to be noted that this EBITDA is after around $3.5 million of one-off costs incurred during this year of change but our EBITDA is called out as being all-in. Also note that our EBITDA excludes a circa $1 million profit on our asset disposals we've made to date.

Our NPAT increased 47% and that does include the post-tax profit from those sales. Operational cash flow is shown in our cash flow slide on slide 18, and shows an EBITDA conversion of 113%. That's due to better focus this year on capital management and how we're looking at the business. As stated earlier, our net debt has reduced in line with the strong RAD receipts of 80.1%, and our capital raises circa $130 million net. Just note that we've also spent $54.8 million in CapEx over this year as we sought to grow and improve our portfolio. As a result of these financial metrics, our EPS on an averagely weighted number of shares was $0.182 cents per share.

We have provided a slide briefly comparing what we said we would do at half year and what we have achieved.

We're happy with where we landed up at full year. I note our guidance has been achieved even with those significant one-off costs occurred this year, but clearly our leadership team - we're striving to be the best and we'll be working on areas we can see need strengthening over the coming months. Our staff cost circa is 64%, ended at 64.7% - it's a little higher but due to public holidays in H2 compared to H1. Probably H2 will always tend to be a little higher but we will be working on continuing to keep to our target percentage.

So, when I look at 2017, I see a year of change and repositioning the company. This is in both an organisational and an operational sense. We have reset the regional management structure. We've engaged new people. We've virtually completely changed the leadership of this company. We started an Emerging Leaders Program and we'll work to ensure talent in this company is retained. We have an exceptionally strong focus on quality and for that reason, we have included in our senior executive three people - our Quality Director, our Chief Nurse and our Chief Policy and Regulatory Officer to ensure that our operational processes fully reflect this focus. To this extent, we can pleasingly advise that we have received 35 visits in the second half from the accreditation agency throughout the four states and we have successfully met all outcomes from those visits.

So, to our key operating metrics. As I said, we are very pleased with the overall performance but we note this has gathered momentum towards Q4. If you look at the graphs at the bottom of the page, you can see our monthly occupancy tracking up, our non-wage cost tracking down and our revenue per occupied bed remaining relatively flat regardless of those changes within the government pay system. As I said our spot rate at 30 June for occupancy was 94.9%.

Although I'd like to tell you this trend is exponentially upwards, of course I can't. But we will just keep using the tactics and the motivation we have in our staff and our system, to work to take a larger than expected share of people needing care, and continue to grow this as much as we can. Obviously this is not shared equally amongst all our homes, some have performed better than others for a variety of reasons. This will keep happening. We'll look at our portfolio in quartiles and we'll always have a bottom quarter but we'll always be continuing to work on each of these to keep lifting the overall level of our portfolio.

So, Steve, would you like to comment on our capital?

Steve Lemlin: Thank you Norah. What we see here is a balance sheet which has been greatly strengthened over the past 12 months. The key components are: the successful capital raised in December, which raised $130 million after costs; strong net RAD inflows in the year of $80 million, and continued strong conversion of operating profit to cash. As a result, net debt reduced by more than 50% to $102 million which represents a gearing ratio as Norah has pointed out of 1.2 times EBITDA, well within our targeted range of 1.5 to 1.8 times.

Earlier this month we successfully completed the renewal of our banking facilities in full with our existing bankers, Westpac and CBA for three years with no change to terms and conditions, covenants or capacity which provides greater security and flexibility into the future.

Looking at the three components of our funding, namely RADs, bank debt and equity, we compare favourably with the sector as a whole, as well as other major providers. Whilst we don't specify an optimal capital structure, we're very comfortable with our current position and have the capacity and capability to be flexible as investment opportunities present themselves, whether that's greenfield, brownfield or modest bolt-on acquisitions, whilst balancing them with RAD flows, profits and dividend payments.

If we move on now to our cash flow in more detail - and we look at the components of our cash flow by way of a net debt bridge. Starting at 30 June 2016 with net debt of $223 million, our major movements were the $98 million operating cash conversion, which at 113% of EBITDA reflected improved working capital management and would not, in the long term, sustain at more than 100%; our net RAD inflows of $80 million – which I will come to shortly, in a little bit more detail; We then saw the capital raise of $130 million (after costs) and a previous more modest issue of $50 million, which completed the major inflows for the period.

The major outflows were the settlement of the FY16 tax and FY17 tax on account; capital expenditure of $58 million (which we will expand upon a little later) and then the final dividend payment of $19.3 million, relating to FY16 which was paid in November 2016.

We've also shown here our RAD movements in a little more detail and highlighted the outflows from departing residents of $186 million. We've shown separately here in this bridge, the level of increase attributable to new beds which came online in July 2016 at $9 million and the modest increase of $7.7 million in probate liability - but the main contributing increase was the $249 million from incoming residents at a higher average price RAD than RADs for our outgoing residents.

If we move on to resident profile- we've provided more information on our resident profile on this slide and in Appendix F we've also provided greater detail to show the movements in both half year periods. As noted, our RAD pool did increase to $730 million in the year and the main factor was the differential between outgoing RAD payments and incoming, which has been sustained. Our average incoming contracted bed price of $394,000 over the period results in incoming RAD payments considerably higher than our average RAD balance of $275,000 at the end of June 2017

Over the period, we have seen a modest increase in concessional residents to 43% at 30 June 2017, and this is not a result of direct strategy or policy but more reflects the fact that a large proportion of our increase in occupancy has occurred in our higher concessional homes.

After reclassification of old unpaid RADS in July and August which we discussed at the half year, and as shown in the graph, we've seen no further significant shift in RAD preference trends in the second half compared to the first half and our RAD combination residents at 30 June 2017 are very similar to 31 December 2016. With these trends, and the ongoing high level of incoming RAD price compared to outgoing, we expect net positive RAD flows to continue for the foreseeable future.

Before I hand back to Norah, we have also highlighted the modest movement in probate liability over the period which reflects the slightly higher average level of RAD price in probate and we do have a modestly higher number of residents. I hand back to Norah.

Norah Barlow: Thanks Steve. What we look at here is that, the way I look at it, whatever happens in aged care it is not a sector which is going away. We're underpinned by a strongly growing, ageing population, increasing year-on-year in the medium to long term. Governments will continue to fund this sector. The methodology they use will evolve over time I'm sure, but their continuation to support that is absolute. We're obviously also in a sector which has been under scrutiny a great deal recently, and we feel we now need two hands to count the number of reviews being carried out. But the upcoming reports that will include the presentation of the June review, the Kate Carnell enquiry into the aged care accreditation system are due out shortly.

When I look at these, I think David Tune wrote the initial LLLB papers and I think it would be fairly expected that he'll be thinking at this time that his initial views will, in the main, be reaffirmed. We will look to keep people at home as long as possible and then seek to provide good quality aged care on a more user paid basis when needed. I feel that's quite correct. Yes, when I look at the report, I probably won't like all of it and we'll reserve a fuller assessment until we know the results. But if I look at the longer term, I see aged care and the part it plays - the part that we play as being absolutely assured.

We know that we are a very important part of the health sector in Australia. Obviously we'll continue to be under scrutiny over what we do but when I look at the future, I see us as having the portfolio size, the expertise in our team and the balance sheet to cope with all changes - and it's likely we'll see them. The sector is still fragmented so some of these changes may indeed lead to further consolidation.

As an aside, when I look at quality, I can honestly say that I've never personally seen anyone in this sector who deliberately sets out to make a mistake to the detriment of a resident. Human frailty and error exist, but overall the entire sector is characterised by truly good people doing what is often a difficult job. We obviously put policies and procedures in place to make sure this is reaffirmed at Estia.

So, just a few moments to look at how we add value on slide 11 to the overall economy through the delivery of our care services not only to those we serve in our homes daily. About 7000 people will go within an Estia home over the year, but to the wider community we live within, we spend $340 million on wages; and we spend almost $100 million in non-wage costs. When it's considered what the size of this sector is, I think it's 1% of GDP in Australia, it's worthwhile seeing the very real value we add, in terms of the wider economy.

So to look further, just at the growth opportunities that we see for Estia, as I've said we've spent $54.8 million during 2017. We've spent that on our new builds in Twin Waters and Kogarah; on our significant refurbishment program; we’ve purchased some additional land and we've spent money on the larger program we have in place for facility enhancement throughout our portfolio. We're absolutely committed to ensuring our portfolio of homes remain current to the market and we'll continue to spend this type of spend into FY18 and FY19. The spend that we have enables our homes to generate better occupancy, to increase the RADs and therefore the DAPS, and to set up and be paid for good quality additional service programs. This is what is desired by the new generation of people coming into care or having their parents now coming into care.

For 2018 when we look forward, we're looking to start further development on land that we hold for which we have a development approval and for which we have licences. It is to be noted that we advised the market earlier this year that acquisitions were off for the foreseeable future. We do now advise that we will be considering the merits of smaller portfolio and single site acquisitions on a bolt-on basis if they arise. These will be looked at to enhance our network structure in particular.

So to finish our presentation, our guidance for 2018 is that we expect to deliver mid-single digit percentage growth in EBITDA. We will continue our build programs and we will seek to enhance the opportunities as they arise. We will continue and grow our significant refurbishments plans. We consider RAD inflows will continue to be positive both due to new beds and to price uplifts, and we will continue our dividend policy of a minimum of 70% of NPAT. We will not be happy until our operating metrics and our quality of care is at the forefront of this sector. I've said before this is a journey, so thank you for being on this with us as we continue to achieve.

Before I hand over for questions, I would like to publicly thank every member of the Estia family for supporting the goals of the organisation, and most importantly for continuing to do what they do every day which is providing great care to a deserving group of people. So thanks for attending today and we are now over to Michelle and open for questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or # key.

Your first question comes from the line of Tom Godfrey of UBS. You may ask your question.

Tom Godfrey: (UBS, Analyst) Good morning Norah, good morning Steve. Thanks for taking my questions. Can you hear me okay?

Norah Barlow: We can, thanks Tom.

Tom Godfrey: (UBS, Analyst) That's great. Firstly I just wanted to touch on the regulatory funding changes and what you're seeing as it rolls through your book. You've called out a $0.40 per occupied bed day fall in the second half - presumably this includes both a scoring changes component and an indexation freeze component. I just wanted you to touch on whether you have any reason to believe that the scoring changes component won't roll off at the same run rate across the remaining 80% of your book.

Norah Barlow: No, we don't see that Tom. We see our overall bed rate remain relatively flat and we see that we have good systems, good processes. We are absolutely intent on ensuring that the government revenue including ACFI that matches the needs of the residents, and when we look forward we can see that we'll keep that in place. We've got a good team in place to make sure that we do that.

Tom Godfrey: (UBS, Analyst) So, by the time the full extent of the cuts have rolled by FY19, you're looking at $2 to $3 all in cut?

Norah Barlow: No, look I think when we look at it we look at revenue as a whole. So when you look at the whole thing, we're seeing that we just need to make sure that any factors that are compensated by other factors, we will keep our revenue at the level it is. Where we've guided you to shows an increase in EBITDA and that's obviously on the back of revenues as well.

Tom Godfrey: (UBS, Analyst) Understood. That's great and maybe just one follow-up on occupancy. You guys have done a good job to get that up to 94% in the second half. I think at the first half result you called out a portfolio of around 10 that was sort of below 90% occupancy. Is most of this uplift weighted to that underperforming portfolio or have you seen it across your entire book?

Norah Barlow: Really off the entire book. It's been a focus that we've had. We've put a team in place. We've used the tactics that are tried and true in this sector and so we're seeing it across all homes we're not seeing those same 10 being there. So, no it's across the entire book.

Tom Godfrey: (UBS, Analyst) Okay, that's great. Thanks a lot.

Norah Barlow: Thanks Tom.

Operator: Your next question is from Dan Frost of Macquarie. You may ask your question.

Dan Frost: (Macquarie, Analyst) Good morning. I'd like to just kick off asking a question on staff costs. At the last result, you spent a lot of time talking about the fact that there was a number of areas that you were looking at to reduce the level of non-staff costs. Can you just detail what progress you've made across food, travel and procurement and what sort of level you expect in FY18?

Norah Barlow: Okay, so staff cost over the second half increased slightly. We don't see that as an ongoing trend. We see that as a function of the stats and of course it's a revenue top line function as well. So staff cost went up slightly in H2 but what you can see on slide six is where the non-wage cost track downwards and we saw that over Q4 particularly those metrics track in that direction. So we've made progress in all those areas and that has resulted in the reduction in the non-wage costs.

Dan Frost: (Macquarie, Analyst) I guess my question was targeted at trying to understand what we can factor into FY18. Does the second half incorporate most of the room for improvement or should we still continue to see improvement in FY18?

Norah Barlow: I think where we've guided you to as an EBITDA, which is a function of revenue, occupancy, staff and non-wage costs, it's a function of all of those things. But when you look at the charts and the metrics contained in the charts on page six, I think you can see where we've tracked over that period, particularly Q4. So I think when you're looking at it, our guidance will be on EBITDA and you should use those charts as indicative of where we're seeing the individual metrics contributing.

Dan Frost: (Macquarie, Analyst) Okay, great. The second question is just on your RADs. Is it possible to get an idea of the portfolio average list price for RADs? It seems to be one of the things that's more opaque. I know that you provide the incoming price over the last six months but that is subject to mix and so it would be useful just to get an overall average.

Norah Barlow: The average list price today you're talking about there Dan?

Dan Frost: (Macquarie, Analyst) Yes.

Norah Barlow: Look, I think we've shown in the presentation the average list price - you're quite right - but that happened over period for the incoming RADs. Prices change regularly but they don't change that significantly I think. When you look at that $395,000 for incoming price, you'll be fine to use that.

Dan Frost: (Macquarie, Analyst) Great, thank you.

Norah Barlow: Thanks.

Operator: Your next question comes from the line of Tim Cheng of Seven Group Holdings. Please ask your question.

Tim Cheng: (Seven Group Holdings, Analyst) Yes, hi Norah. It's Tim here. I've just got three questions. The first one is on the dividends. I noticed obviously payouts for H2 is up which is pleasing. I just wanted to know also what the plan is on DRP and also whether there is an intention to pay above the 70% that you've indicate previously.

The second question is on CapEx. You've highlighted - I think it is on page 12 - what FY18 CapEx looks like. Are you able to provide a bit more colour on some of the phasing around that because it says FY18 and beyond?

The third question is on RADs and around that is in particular the incoming growth expectations versus the outgoing growth expectations and what those look like going forward. Are you expecting that to continue?

Norah Barlow: Yes, thanks Tim. Difficult questions. I'll go back to the beginning one shall I? Dividends, yes we're pleased with the 100% - the ability to pay the 100% payout. We have suspended the DRP for this period and I think that it was appropriate given our strong capital position to do that. We're guiding still to 70% as a minimum payout ratio, that's not to say it wouldn't be more than that but the minimum payout ratio is still what we're guiding to.

When we look at the CapEx, the CapEx phasing that you're talking about - but I'm sorry Tim, we're not going to guide fully to that. We've said in there where we're doing it and how we're doing the Twin Waters, Kogarah - finishing off what we're planning on that. We can see $19 million that's been spent in FY18 - that will complete those. We can see that we've got $7 million on sig refurb and that's all happening in 2018. But then when we go forward, the ones that we're saying are subject to planning, They are certainly in planning processes, but we still need to go through some final approvals. We'll see a significant amount of that started through 2018 but we'll see the finishing of that through 2019. So there will be significant spend through that 2018 period but finishing - those projects that we're talking about - finishing in 2019.

Steve Lemlin: Tim, I'll take the final question about the RADs. We don't see a dramatic change, the period since December has not seen a big shift in RAD and combination payments. The numbers are broadly similar to prior periods and we expect that to continue based on what we've seen in the last three to four months. The price differential between the incoming and the outgoing is also being sustained so that gives us the confidence around the continuing trend of net positive RAD inflows.

Norah Barlow: So Tim, are you okay with that? Do you want to ask any further…

Tim Cheng: (Seven Group Holdings, Analyst) Yes, I guess on that one as well - with the CapEx as well - is it fair to say that the maintenance CapEx that you highlight as well on that page 12, is that also going to be roughly what you've highlighted for FY17?

Norah Barlow: Yes, roughly. It could increase on that given the numbers but yes. When we call it maintenance CapEx, its enhancement and the capital expenditure, we know that our portfolio needs to be absolutely fit for the future and we're making sure that we're doing that. Overall, we've got 90% single rooms. We've got a lot of ensuites but for the areas we haven't, we want to make sure that they're also up to those standards. Yes, so a similar increase.

Tim Cheng: (Seven Group Holdings, Analyst) Okay, that's fine. Thank you.

Norah Barlow: Thanks Tim.

Operator: Your next question is from David Stanton of CLSA. You may ask your question.

David Stanton: (CLSA, Analyst) Good morning and thanks very much for taking my questions. Firstly, a fairly simple one for me. I always like to know what your funded bed days were for FY17; helpful for our modelling so is there any chance we could get that?

Norah Barlow: Look, I think it's the available bed days multiplied by the occupancy - so we don't actually disclose the number but it's calculable.

David Stanton: (CLSA, Analyst) Yes, it does fluctuate through the period, that's the only reason I'm asking…

Norah Barlow: Oh yes and you want…

David Stanton: (CLSA, Analyst) …in terms of occupancy. I want the absolute bed days, yes.

Norah Barlow: Right. No we don't. We don't sorry. We just don't supply it. You talked about funded bed days as well didn't you?

David Stanton: (CLSA, Analyst) Yes.

Norah Barlow: Yes.

David Stanton: (CLSA, Analyst) Okay, it's interesting because your competitors do but anyway.

Norah Barlow: I know.

David Stanton: (CLSA, Analyst) Then where are we on our significant refurb journey in terms of how many of your sites have you done - and then in terms of how many have you got to go, what's the uplift in revenue you can see going forward into 2018 and then potentially the margin on that as well.

Norah Barlow: Yes, the sig refurb program - we called out five homes in half year that we've started - we've spent $5 million to date on those, that's about 541 beds. They will finish during the early part of this 2018 year. We've called out in there that we have another $13 million that we've identified in refurb projects over 15 homes, 1270 beds. The difference is that as long as you have that sig refurb bed occupied by a concessional person, you roughly get another $19 per day and if it's not occupied by a concessional person, you get about another $5. So to calculate that, we - at the half year we talked about spending about $9 million in total which would give about a $2 million EBITDA uplift - those are similar numbers but it obviously does depend on whether they're occupied by a concessional person or not.

David Stanton: (CLSA, Analyst) Thank you. Very clear, thank you.

Norah Barlow: Thank you.

Operator: Your next question comes from the line of David Low of JPMorgan. You may ask your question.

David Low: (JPMorgan, Analyst) Thanks very much for taking my questions. Just on the RAD inflows in just listening to what your response to the previous questions. Am I right to understand that you'd expect a similar RAD inflow in 2018 compared to 2017?

Steve Lemlin: It's Steve. We're not actually providing a specific figure in relation to RAD inflows.

David Low: (JPMorgan, Analyst) No, I noticed that.

Steve Lemlin: We do expect net positive trends to continue in line with what we've seen in the past but we're not providing a specific forecast on that RAD inflows in the period.

David Low: (JPMorgan, Analyst) Is there any reason why it would be materially different?

Steve Lemlin: There's nothing that we've seen at the moment that would indicate that. We do have a number of new beds that we expect to come on line this year and we would expect to see incremental RAD flows from those new beds. That's one of the reasons we've identified separately in that RAD bridge that I discussed so we can actually separate RAD flows from the rotation of residents if you like from the new residents coming in.

David Low: (JPMorgan, Analyst) Right. Just in that, and we appreciate the additional detail there in the appendices - the reclassification - can you talk a little bit what that's about and whether that's something that's going to show up year in that data set?

Steve Lemlin: Yes. No, it's not something that will re-occur each year. It was an exercise that was undertaken in July and August last year following the number of acquisitions that Estia undertook to review the classification of residents who had nominated RADS as their form of payment, but may not have paid a full RAD or even ended up paying a full RAD. It's an exercise that we now undertake on a monthly basis and is just incorporated within our normal incoming and outgoing movements - so you won't see that reclassification again. We've just shown it in that detailed slide because it did cause confusion in December and we just wanted to be quite clear but that's not an ongoing issue.

David Low: (JPMorgan, Analyst) Alright, thanks. That's great and the last one for me - Norah you commented on wage trends across the year just finished. You're suggesting that that's not indicative of what the trend will be going forward. I would have thought the wage increases are broadly known through awards etc and hence we would expect the wages per occupied bed day to continue to increase. I was just wondering if you could clarify that please.

Norah Barlow: Yes, for sure. So the percentage that we show is of course a function of wage - wages actually paid, and revenue. So when you look at that, there's two dependencies that we look at. Yes, wage trends we've got employee agreements throughout most of our homes now. We're just combining them. We certainly see an upwards trend in that, that we can foresee. We have to make sure that our rostering is appropriate to the needs. We have to make sure that we're employing the right people at the right time and at the right rate, and when we look at the percentage that we have - as I said it's a function of the revenue plus the wages.

David Low: (JPMorgan, Analyst) No, look that's clear. I obviously misunderstood. I thought you were talking about the actual total wages.

Norah Barlow: Oh no…

David Low: (JPMorgan, Analyst) I didn't realise you were talking about percentage.

Norah Barlow: No.

David Low: (JPMorgan, Analyst) No that's…

Norah Barlow: No, sorry.

David Low: (JPMorgan, Analyst) I do understand …

Norah Barlow: Sorry, you're right. They are important people in this sector and their wages are appropriate for that so thank you.

David Low: (JPMorgan, Analyst) No, okay. No, that's clear. Thanks very much.

Norah Barlow: Thanks.

Operator: The next question is from John Stavliotis of Morgan Stanley. Please ask your question.

John Stavliotis: (Morgan Stanley, Analyst) Good morning Norah and Steve.

Norah Barlow: Hi John.

John Stavliotis: (Morgan Stanley, Analyst) Just a question, which you've talked already - but I just wanted to clarify on the staff cost ratio in the second half. So are you saying that that increase is due to – like, can you split out how much of that increase is due to seasonality and I guess where there is improvement to lower it?

Steve Lemlin: I'll take that John. There is in the second half year considerably more public holidays which do have a significant impact on us. Over the course of the year, we note that our staff costs on a per operating bed day basis historically have been considerably lower than Regis and Japara. The percentage as Norah said, is in an impact really of our lower revenue per operating bed day, which is one of our key objectives to raise. We do think that the level of staff costs as a percentage of revenue is one that we can sustain going forward and over the course of the year we'd not expect to see that second half be so skewed.

John Stavliotis: (Morgan Stanley, Analyst) Okay, so…

Steve Lemlin: We also note - just in those percentages John, the occupancy slide that we showed there, you can see how significant the occupancy did pick up in the fourth quarter and that does have an impact on that percentage as well. Occupancy didn't pick up as quickly in the third quarter as we'd hoped.

John Stavliotis: (Morgan Stanley, Analyst) Okay and I guess all that is considering the indexation freeze as well, that you're still confident of getting the improvement in the second half.

Steve Lemlin: We've provided the guidance on a mix of all the parameters and metrics that we've shown in the appendix and as Norah said, there will always be movement in those and our goal - and what we set out is to ensure that we can deliver that guidance as any of those metrics may move independently.

John Stavliotis: (Morgan Stanley, Analyst) Just on the guidance, are there any one-off expenses expected next year - or non-recurring charges next year?

Norah Barlow: Not to the same extent, this year of change has been extraordinary so you certainly wouldn't see things to that level. But we've made an absolute commitment to the market that if we do have anything like that, we will include them in our EBITDA but we will call them out for your assistance. We obviously don't expect them to that level again. Steve has a little bit of a joke which says that the only thing true about one-offs is that another one will appear again next month - but certainly not to that extent. This is a significant year of change that we've undergone this year.

John Stavliotis: (Morgan Stanley, Analyst) Okay.

Steve Lemlin: Just to add to Norah's comment about that, whether it's a non-recurring cost or a recurring cost, we're still accountable for where we spend shareholders money. At the end of the day it comes out of NPAT - it comes out of dividends.

John Stavliotis: (Morgan Stanley, Analyst) Yes, just I guess because it was included this year as being non-recurring, I just wondered if there was the expectation there.

Norah Barlow: Yes, certainly not to this extent John.

John Stavliotis: (Morgan Stanley, Analyst) Excellent. Alright, thanks guys.

Norah Barlow: Thank you.

Steve Lemlin: Thanks John.

Operator: The next question is from William Dunlop of Merrill Lynch. Please go ahead.

William Dunlop: (BofA Merrill Lynch, Analyst) Good morning guys. Thanks for taking my questions. Firstly, I just wanted to ask you about the market for additional services - how you are seeing that and whether you're seeing it change and what initiatives you've put in place to see an improvement in Estia's revenues.

Norah Barlow: Look, additional services are growing within the Estia portfolio and one of the reasons we're spending the CapEx as well is to make sure we've got facilities that are able to charge these in the appropriate manner. Look, we see it's good. We see in the higher areas, it's an acceptable process that works well and we see in some of the lower ones - no we can't get it to the same level but we'll certainly keep working on it as part of the process going forward. It's part of what the provision of aged care will be as we move forward.

William Dunlop: (BofA Merrill Lynch, Analyst) Okay and are you able to give any metrics around the dollar per day charged at the low end and high end, and perhaps how many facilities have additional services in place?

Norah Barlow: I'm sorry I can't. When I look at it, we look at the overall and what we're talking to the market about is definitely the overall, Will. So certainly not all of our homes presently charge additional services. They're all working through a process of doing so - but it's certainly a key factor for us moving forward to make sure that we keep increasing that. You will see that when you look at the revenues per operating bed day as we move through the half year and the full year.

William Dunlop: (BofA Merrill Lynch, Analyst) Okay, great thanks. Then just finally, what's your expectation on RAD DAP mix into fiscal 2018 and how that moves?

Norah Barlow: Yes, I think on what we've seen so far is that we see - I mean it's a trend of small numbers but we see basically the trend of the non-concessionals being relatively flat between them. We haven't seen a great big pick up in combination. They seem to be either a RAD or a DAP and we're seeing roughly that being 45/45/10 kind of issue of the non-concessionals. We can't see any reason that trend changes. At the present time that's where other people are coming in, that's how we're seeing it.

William Dunlop: (BofA Merrill Lynch, Analyst) Great, thanks very much.

Norah Barlow: Thank you.

Operator: The next question comes from the line of Tom Godfrey of UBS, please ask your question.

Tom Godfrey: (UBS, Analyst) Hi guys, just one follow-up from me. I just wondering if we could elaborate a bit on the growth strategy. If you sort of rewind 12 months you guys had put acquisitions off the table and were going to refocus on organic growth and development. I know your forward brownfield, greenfield pipeline is still well below listed competitors and you've also mentioned that smaller acquisitions are back on the table. Can you just sort of step us through your thinking there?

Norah Barlow: Yes, Tom. Look, when we pulled back from acquisitions, we knew we were - we knew our house needed to be got in order so when you do that, when you look at that, you can't be adding to that position during that time. What we've seen over this year - we've seen great advancement in how we're doing things, in our systems, in our processes, in our people. We've made massive strides into making sure that we have the right people in the right places. We've moved our regional structures. So when we came to this year in looking forward, we looked at the fact that our networks are really able to look at small bolt-on acquisitions into that network to solidify that to make each network just a little bit larger. So when we were looking at this, we decided to advise the market that we will be looking at those smaller portfolio or single facilities acquisitions. We're also though actively looking at all our sites. So we need to look at land that will continue to allow the growth of the company as we move forward. To do that we want to look at sites that have potential to build into what we've already got, make sure that we're rounded, make sure that our management systems can work well and we'll continue to look at those. So you are likely to see some further additions into the portfolio over the coming years, both in land and in smaller acquisitions as we move forward.

Tom Godfrey: (UBS, Analyst) Thanks a lot.

Norah Barlow: Thanks.

Operator: You have another question from Tim Cheng from Seven Group Holdings. Please ask your question.

Tim Cheng: (Seven Group Holdings, Analyst) Yes, hi Norah. Just a follow-up on that last question. Are you able to walk through perhaps the - like the metrics or the framework that you'd look through when assessing these smaller land acquisitions that you mentioned?

Norah Barlow: What we're looking at is making sure that number one, the land is in area which provides a good ability to build an aged care facility - so that means that we would like to see it in a high or very high need area. That means that we'd like to see the competitors sites that we know we can work with them. That means that we want to see it within our network. We don't have a set capital requirement of that home. It's going to depend on the socio-economic area. It's going to depend on the numbers of beds. But we are looking that with -the beds that we build, the facilities we build are likely to be larger. I don't think anyone nowadays could say they would build a smaller facility. So they're likely to be slightly larger and they're likely to be in areas where we've assessed high need.

Tim Cheng: (Seven Group Holdings, Analyst) Okay, great. Thanks.

Norah Barlow: Thanks Tim.

Operator: Once again, if you wish to ask a question, please press star 1 on your telephone key pad and wait for your name to be announced.

Norah Barlow: We seem to have no further questions so thank you for attending today. I know it's a busy day for you all so thank you for giving us your time. We look forward to talking to many of you at a later time. The call is now over. Thank you.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

End of Transcript