

Apr	\$166,498	\$115,965	\$98,634
May	\$211,171	\$151,507	\$111,528
Jun	\$20,748	\$13,250	\$126,476
Jul	\$135,211	\$107,492	\$120,362
	\$130,860	\$121,564	\$129,346
		\$121,623	\$98,640
			\$124,664

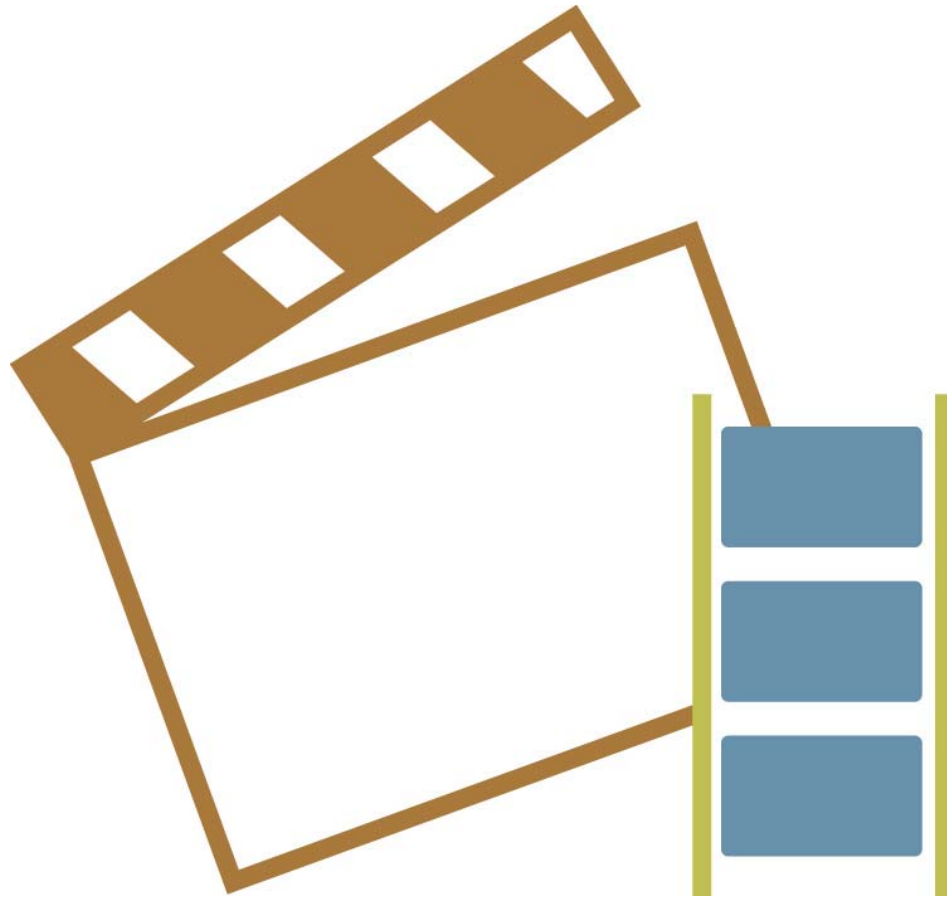


STRATEGY



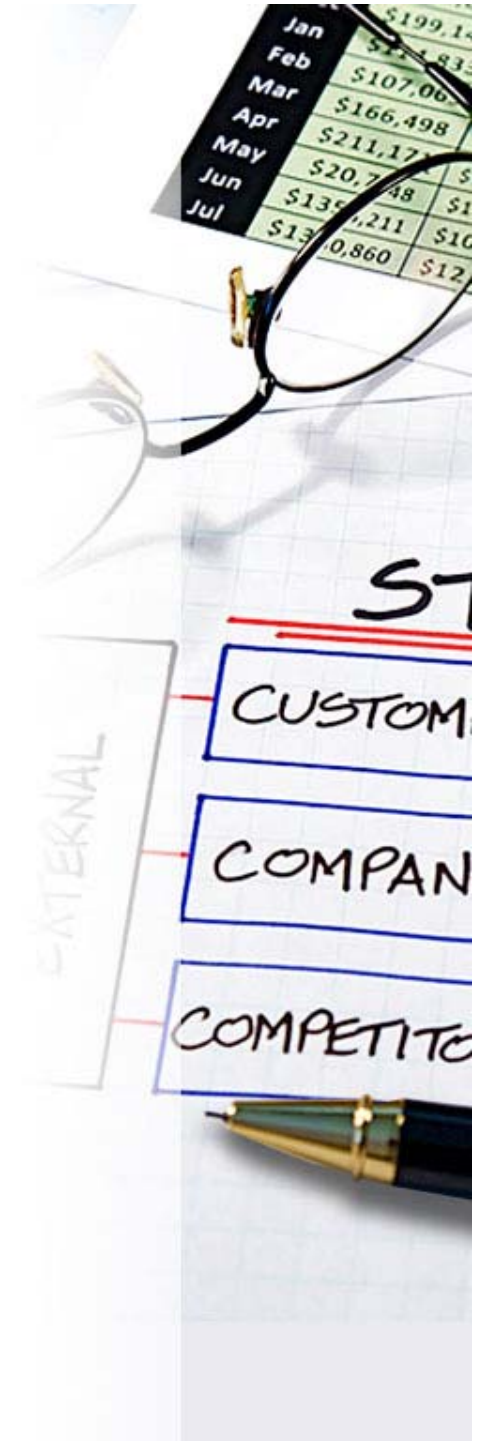
Grant Corderoy - Senior Partner

StewartBrown



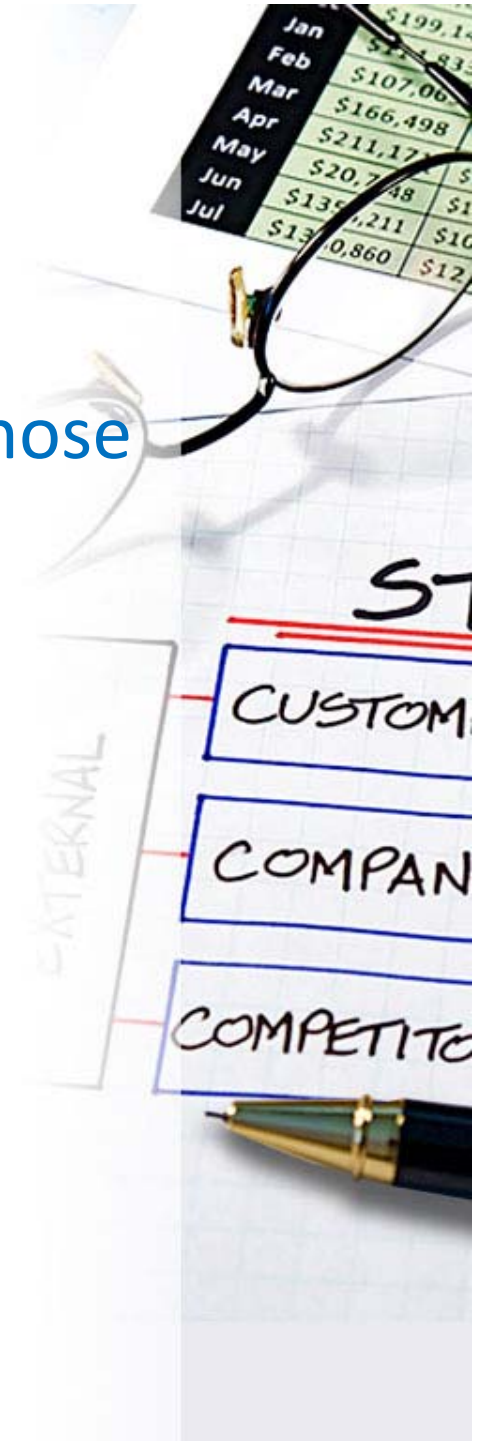
SECTOR UPDATE

SETTING THE SCENE



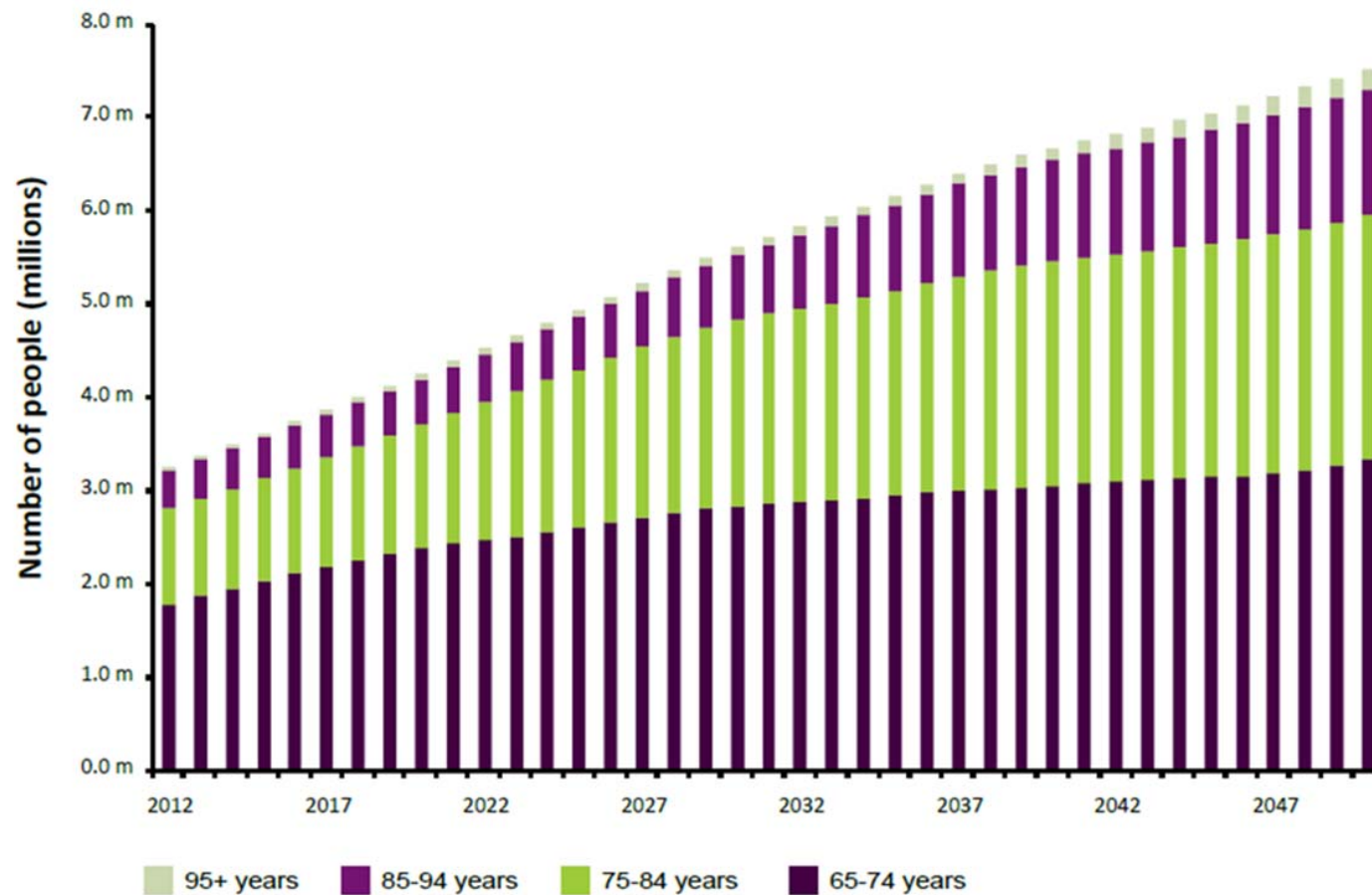
Setting the scene

- △ Ageing population
- △ Changing needs and expectations of those entering care
- △ Increased emphasis on home care
- △ Government reforms including
 - △ Greater emphasis on user pays
 - △ Increased levels of wealth



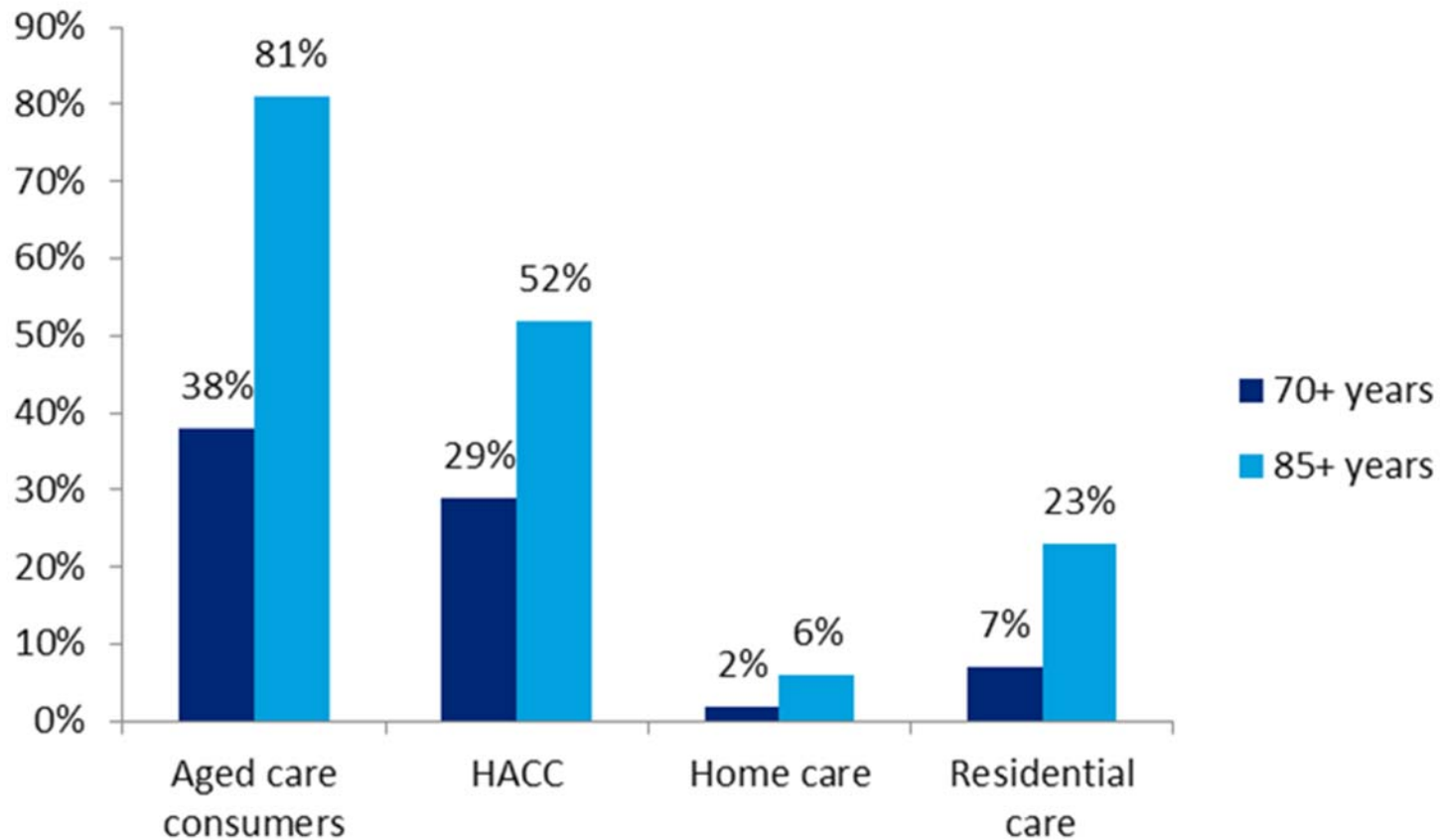
Ageing population

Number of people aged 65 years and over, by age group, 2012 to 2050



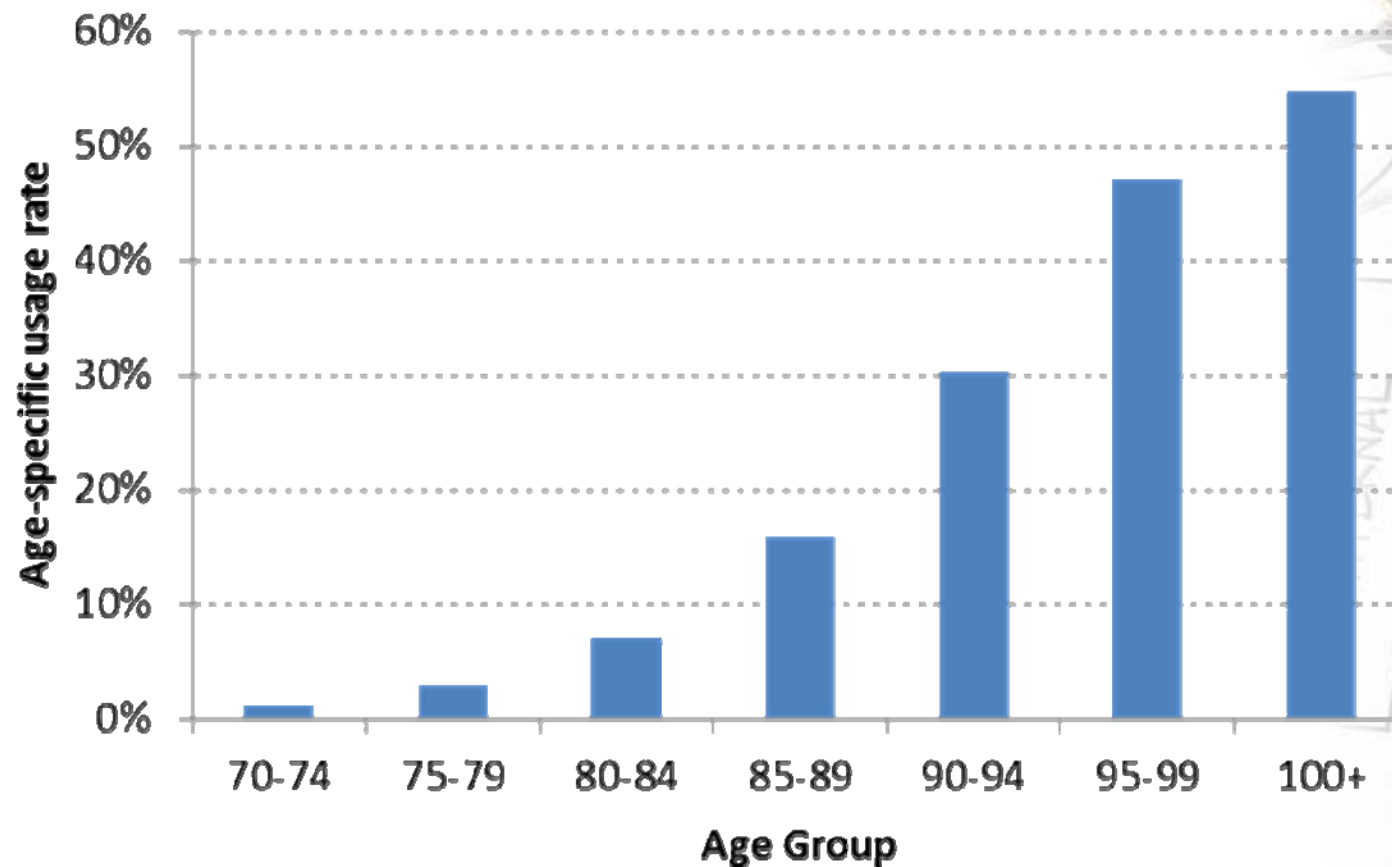
The aged care system

Proportion of people 70+ and 85+ accessing aged care at 30 June 2014

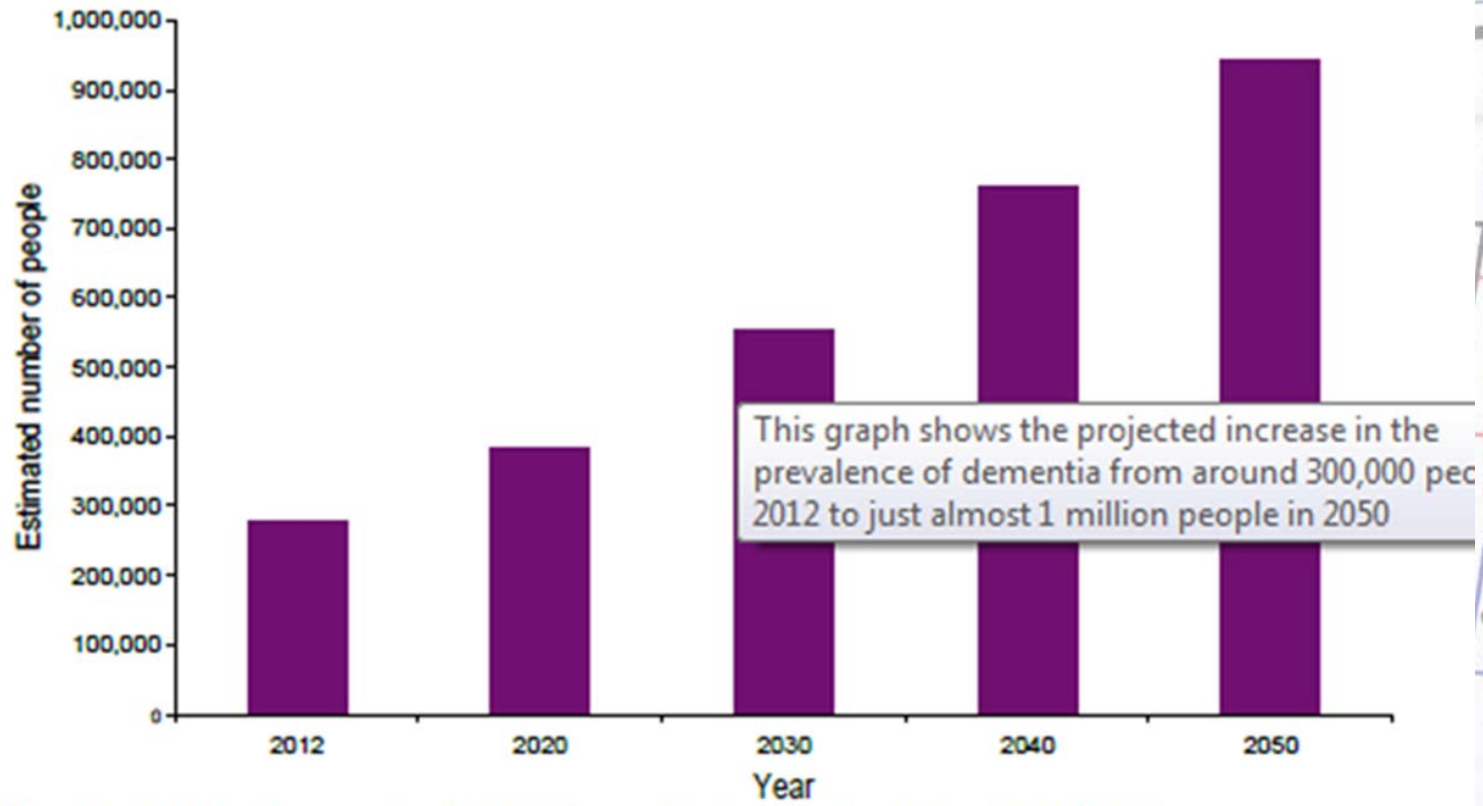


Residential aged care

Proportion of each age group in residential aged care at 30 June 2014



Increasing numbers of persons with Dementia



Source: Access Economics (2011), Dementia Across Australia: 2011-2050



Changing face of the consumer

Residents & clients of recent times

- Grateful to receive a bed or package
- War, depression or struggle mentality
- Low expectations & requirements
- Old world value sets eg thrift, honesty
- Doctors, specialists, nurses and allied health professionals seen as "having authority"
- Generally unquestioning, "government pays"
- Limited number with tertiary qualifications
- Not as asset rich as baby boomers

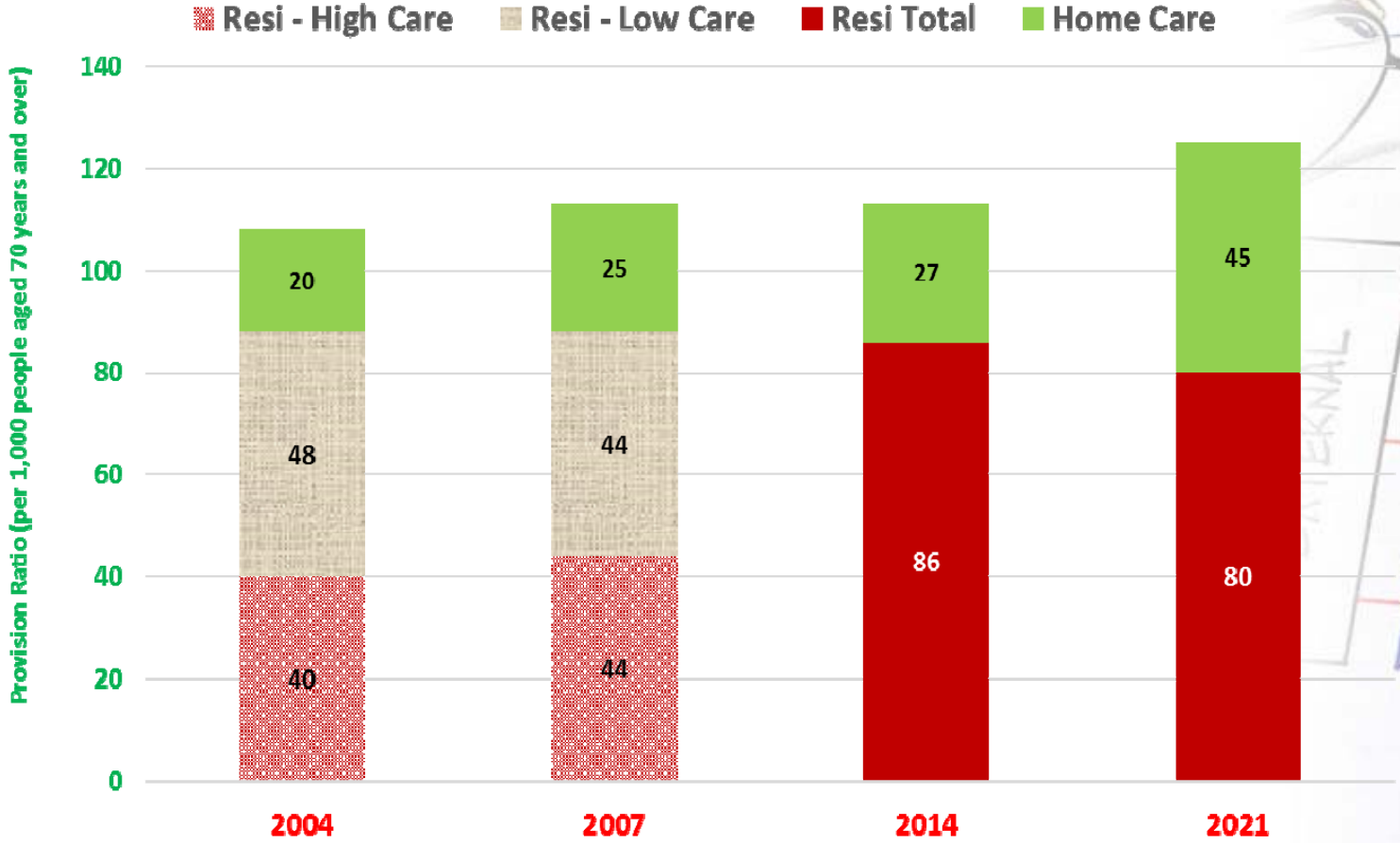
Residents & clients tomorrow

- Attuned to choice, options and decision making processes
- Low or no brand loyalty
- High expectations and needs
- Multi-cultural focus and acceptance
- World views, world travel
- Rights and responsibilities oriented
- Independent, self managing people
- Accumulating wealth/investments versus increasingly disadvantaged
- Increasing number of people with tertiary qualifications, careers etc

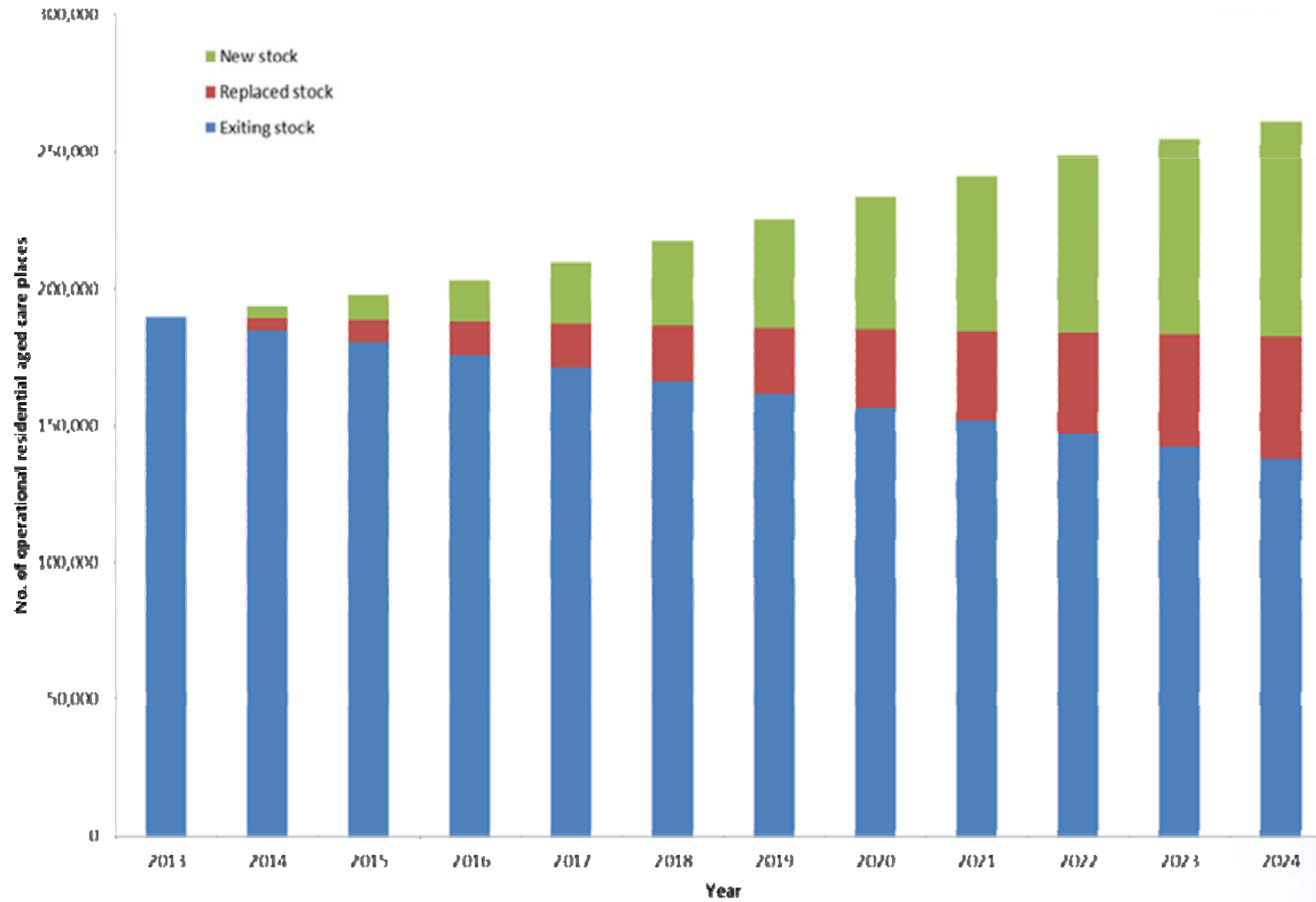


Increasing emphasis on Home Care

Increase in Provisional Ratio to 2021/22

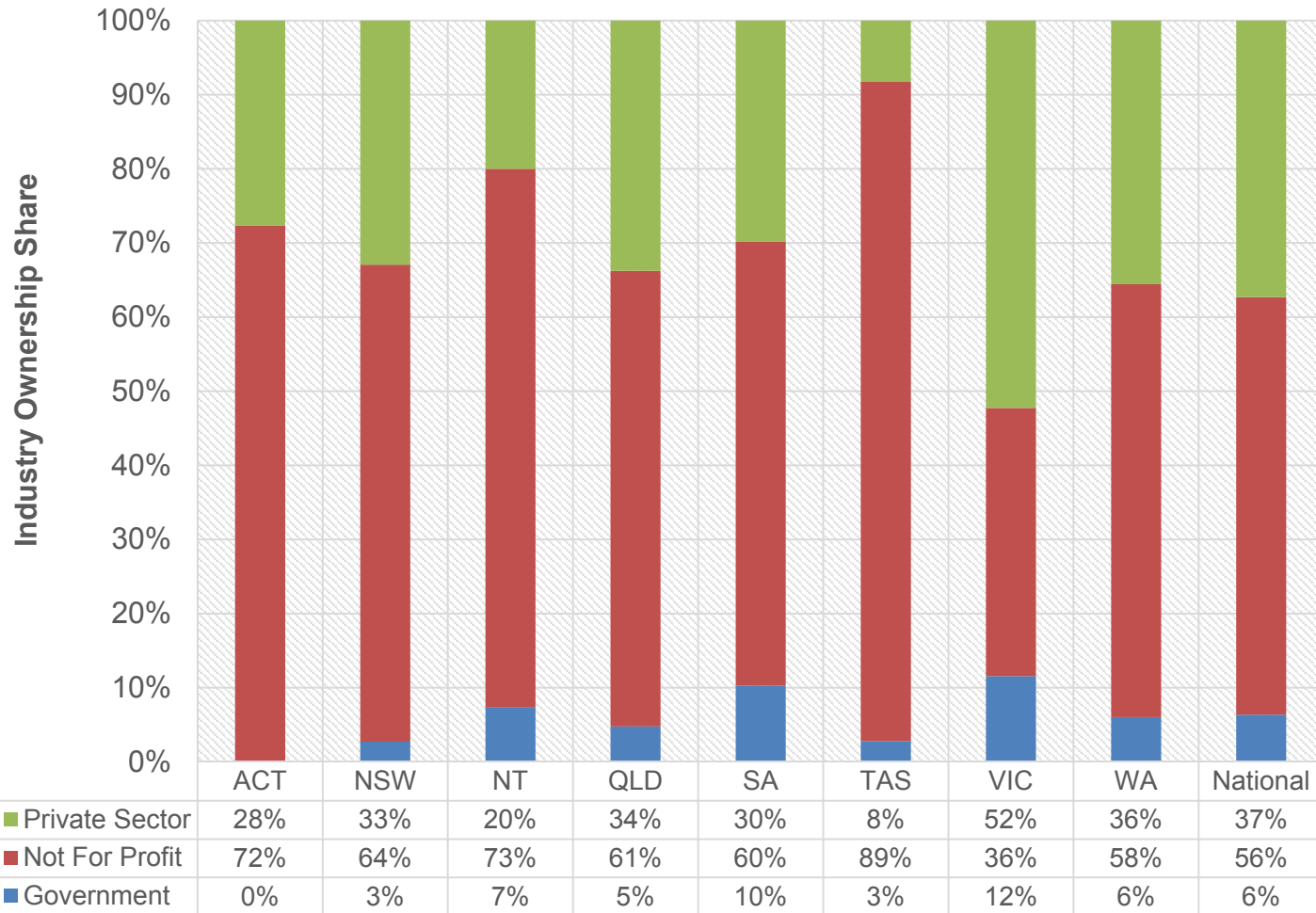


Required investment to meet demand



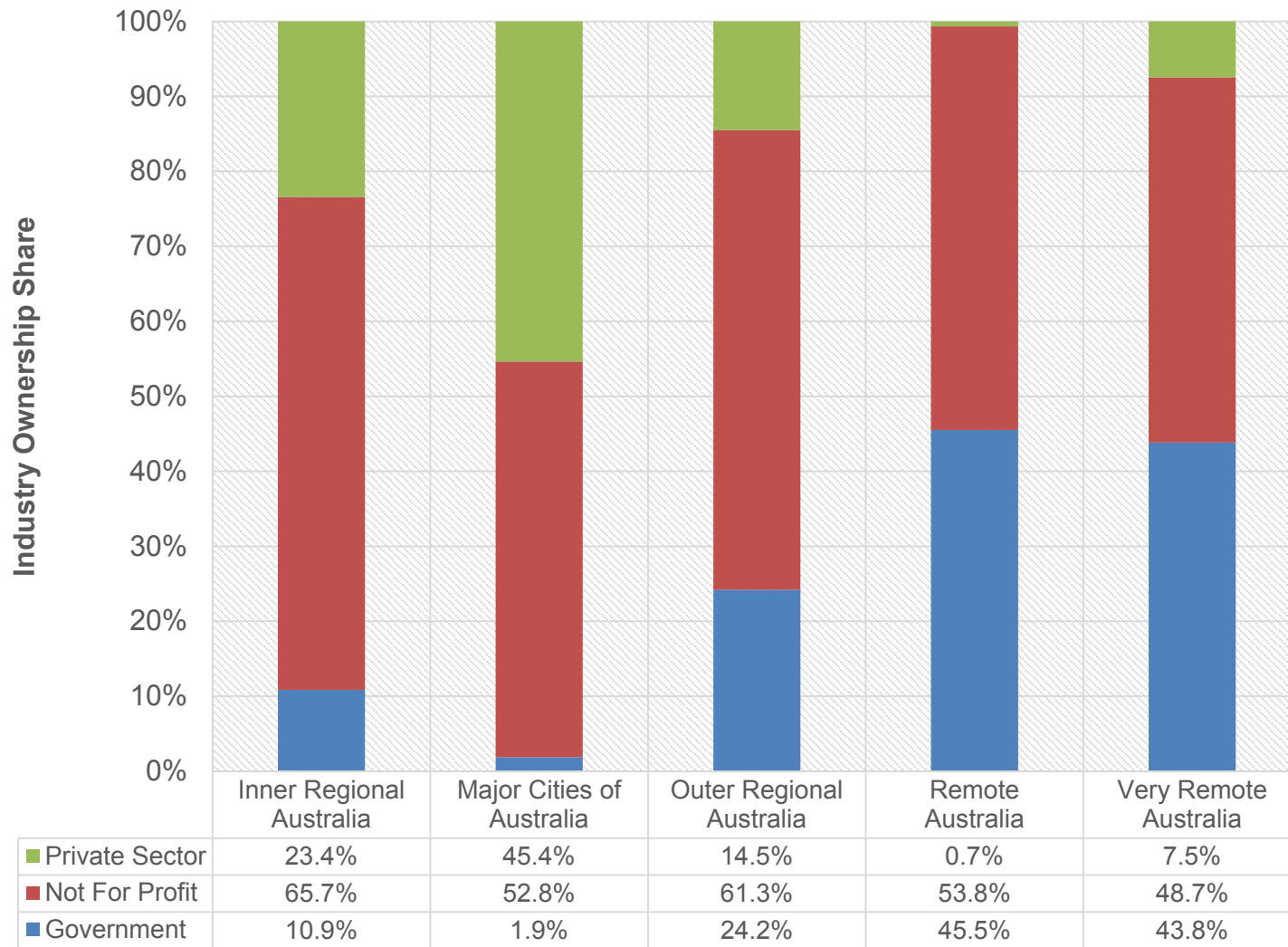
Residential Care Ownership

Ownership of Residential Aged Care By State



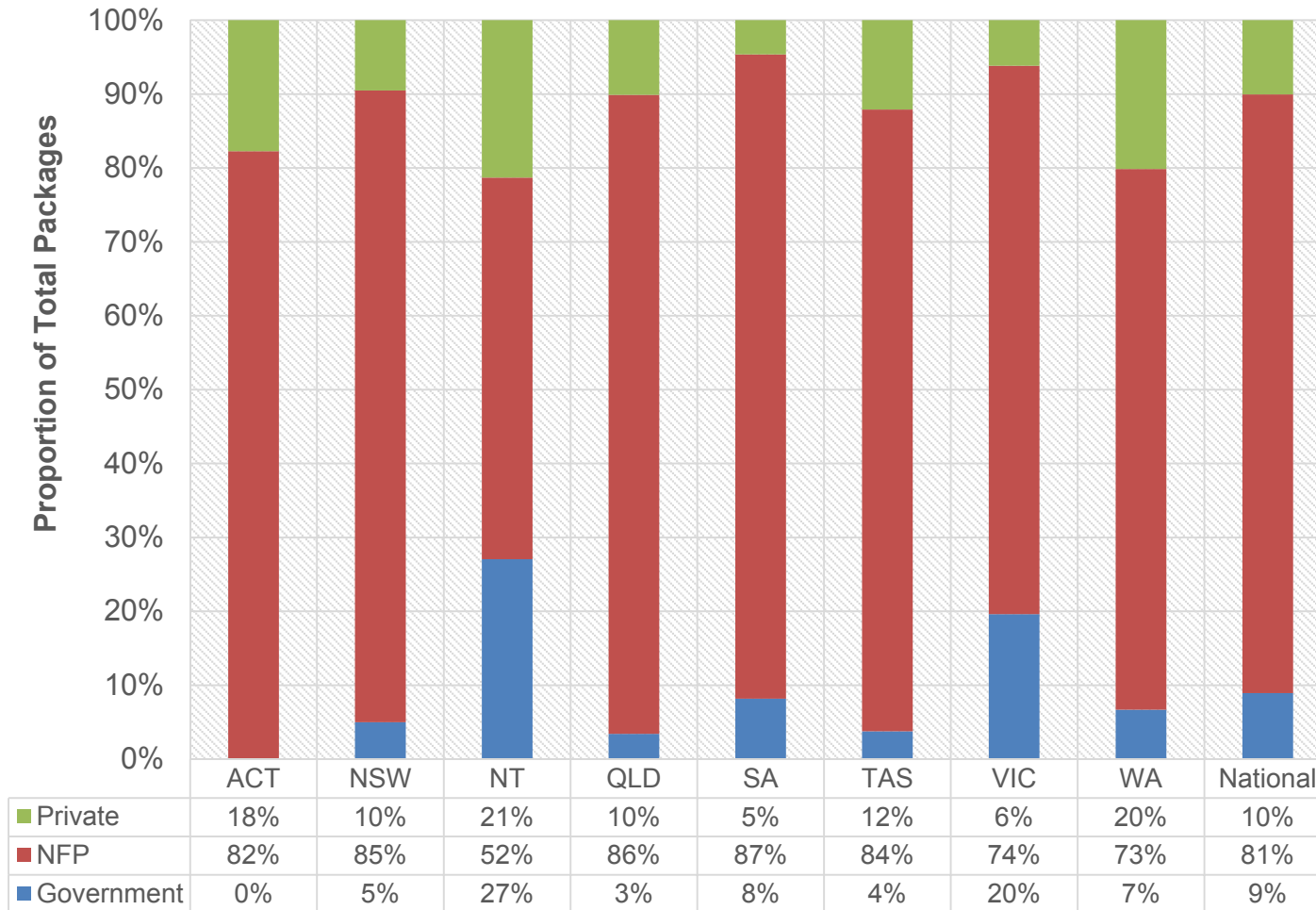
Residential Care Ownership

Ownership by ABS Remoteness



Home Care Ownership

Home Care - Ownership By State



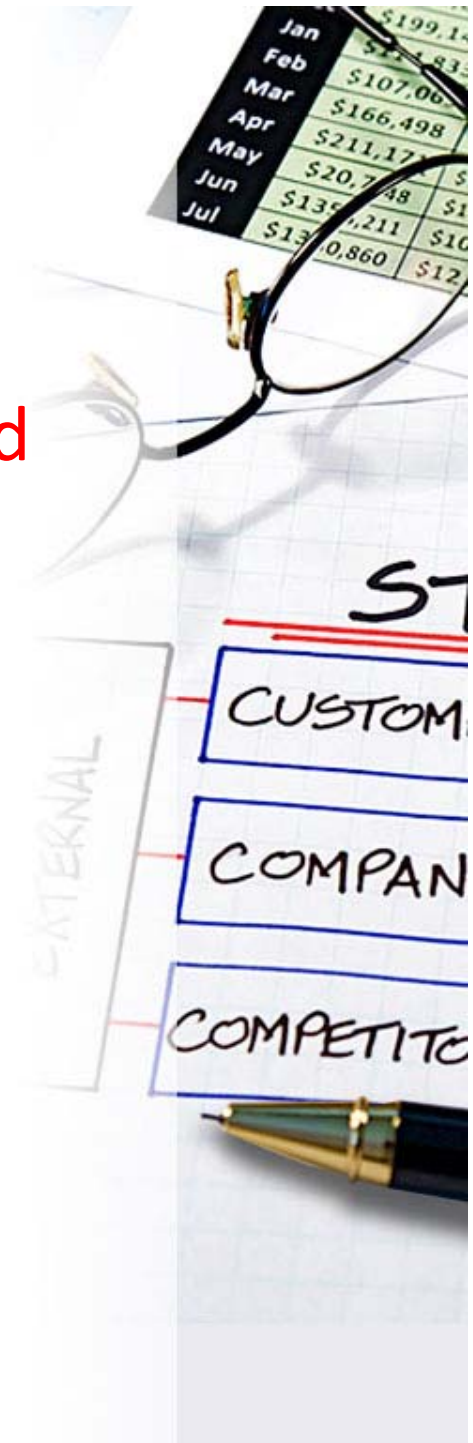
Where are we now?

- ➔ We are in a time of significant change
- ➔ Many challenges ahead
- ➔ We are at a point in time where innovators will prosper
- ➔ Technology is emerging and will assist in transition process
- ➔ A time of high investment
- ➔ A time of growing consumer choice



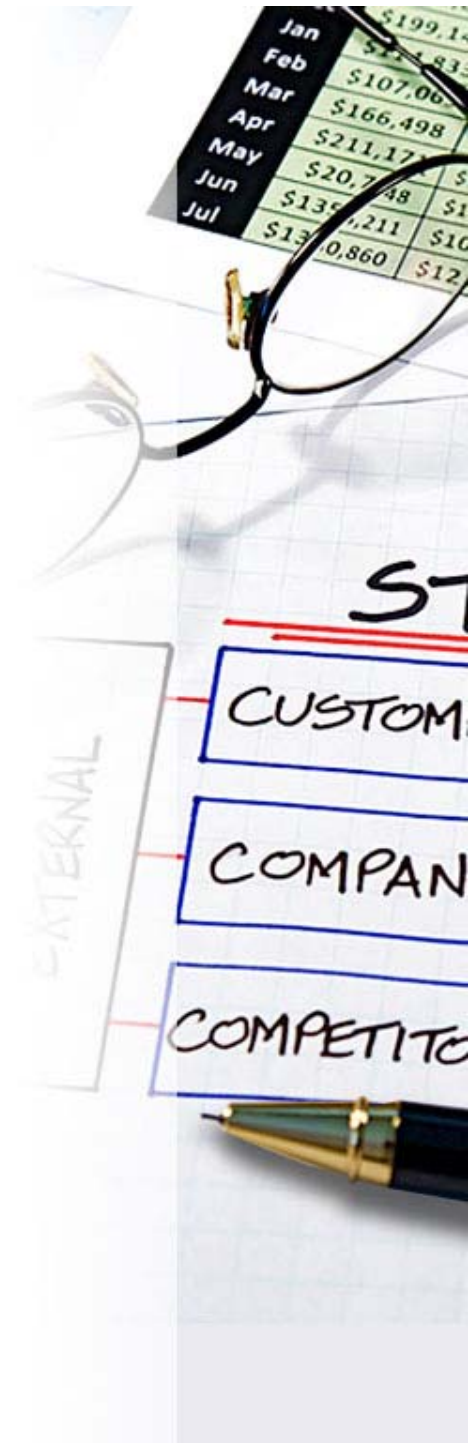
What are the current trends?

- ↪ ILUs being targeted for care services
- ↪ Continued shift to high care needs and shorter resident stays
- ↪ Optional services in residential care
- ↪ New staffing models (including using home care as the central provider of care to other business units)



What are the current trends?

- ↪ Alternate models of care
- ↪ Providing more choice to consumers through accommodation styles, care models and service levels
- ↪ More competition from private providers and larger not-for-profit providers



What are the current trends?

- More competition in home care market likely from outside traditional players
- Further consolidation in market is likely
- Formation of partnerships and alliances will continue
- Integration of traditional business units (ILUs, Residential Care, Home Care)



Reforms to come

Known Reforms

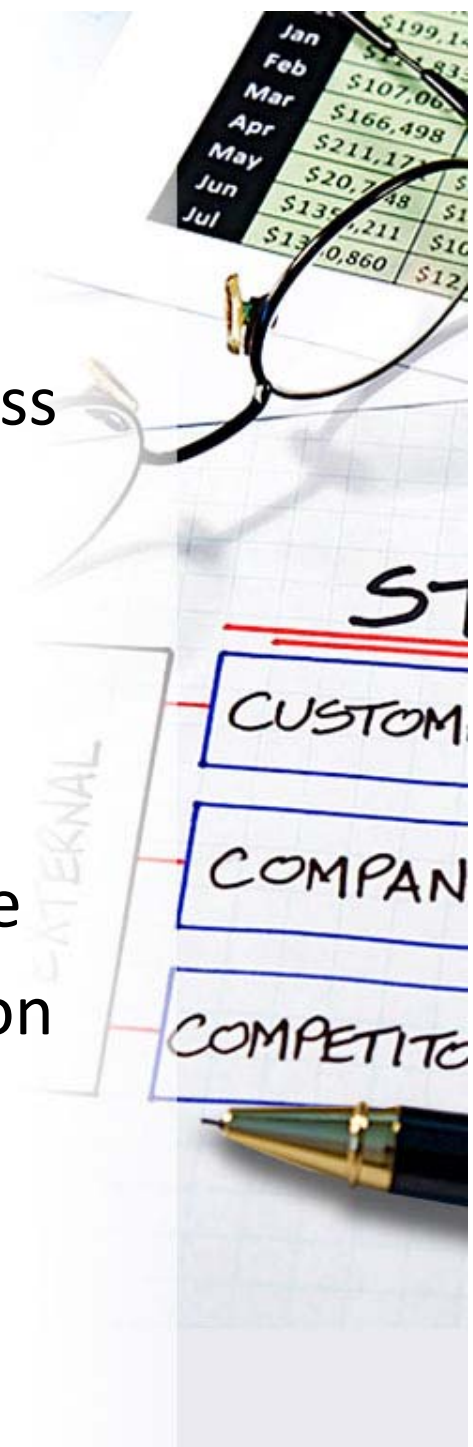
- 👉 Deregulation in Home Care Program (HCP) February 2017
- 👉 Aged Care five year review (2016/17)
- 👉 Integration of Commonwealth Home Support Program (CHSP) July 2018
- 👉 Unspent funds to be returned to government (subsidy portion) and client (contribution portion)



Reforms to come

Probable Reforms

- 👉 New funding instrument (continuum across aged care)
- 👉 Independent assessment of funding instrument
- 👉 Deregulation of residential care places
- 👉 Consumer directed care in residential care
- 👉 Furtherance of user-pay through expansion of optional services



The Aged Care Roadmap

Year 2016 to 2017

- Review of aged care reforms.
- Means test arrangements, accommodation pricing and bond guarantee scheme
- Review of ACFI

Year 2018

- Integration of CHSP and HCP
- New legislative framework to support care at home changes

Year 2018 to 2021

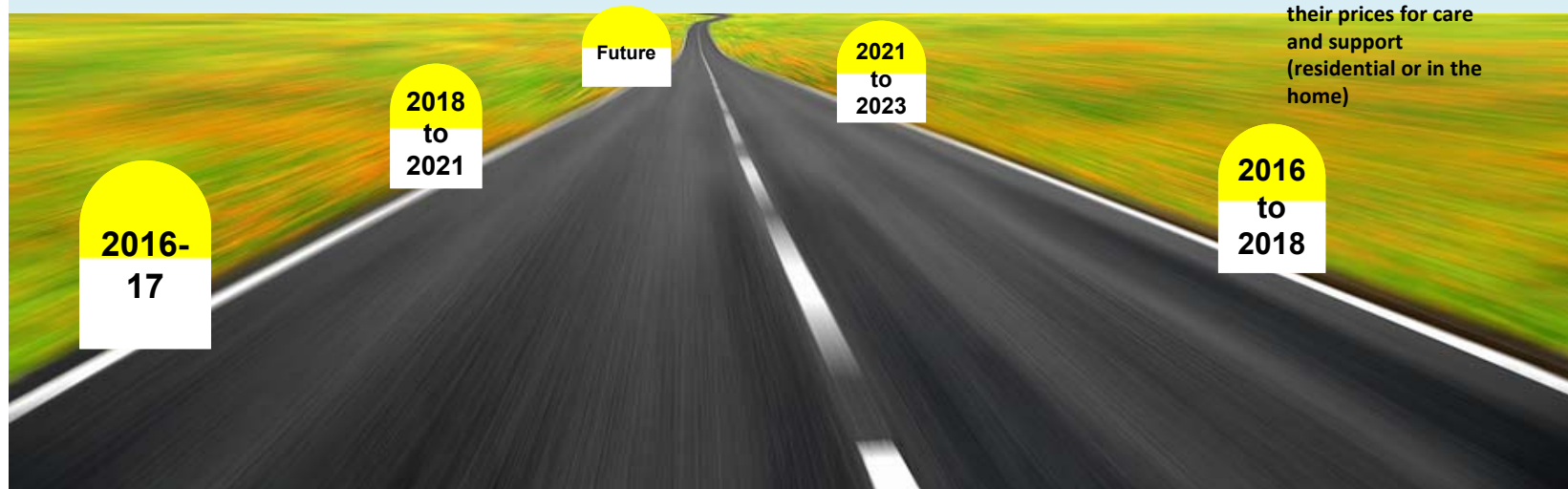
- New regime of registered providers
- New financial products to assist consumers in their choices
- Replacement or reform of Bond Guarantee scheme
- Integrate fee arrangements for HCP and CHSP

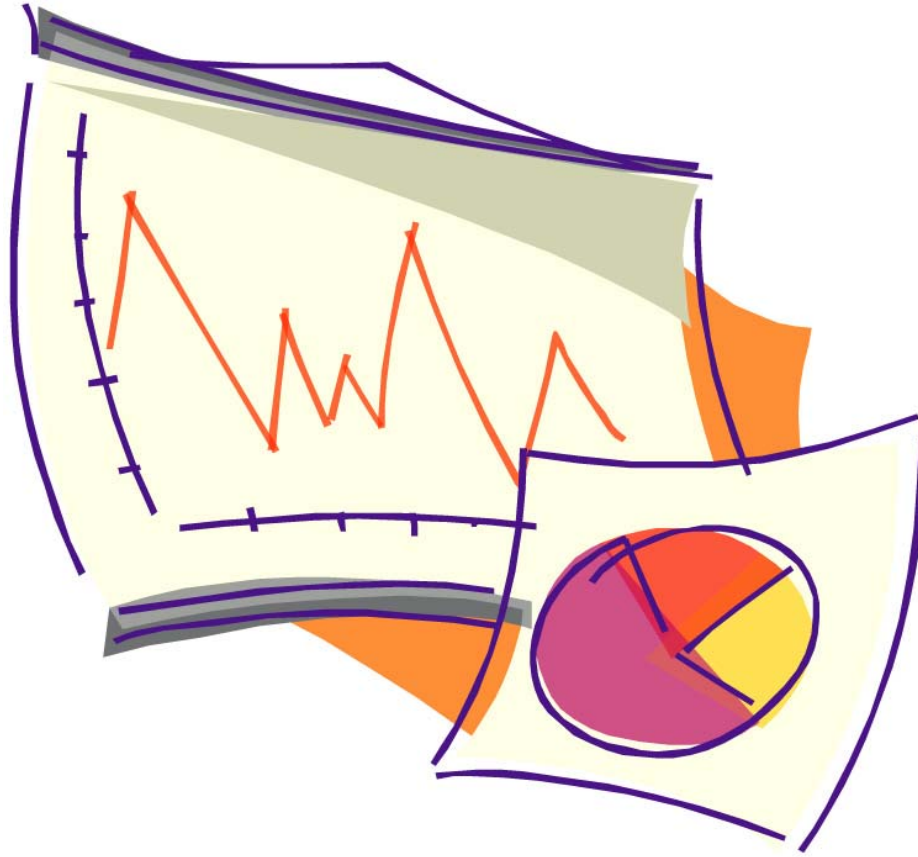
Year 2021 to 2023

- Means test all income and assets
- Re-calibrate consumer contributions based on ability to pay
- Safety net to ensure access for those with low means
- Align subsidies for care and support across home care and residential care

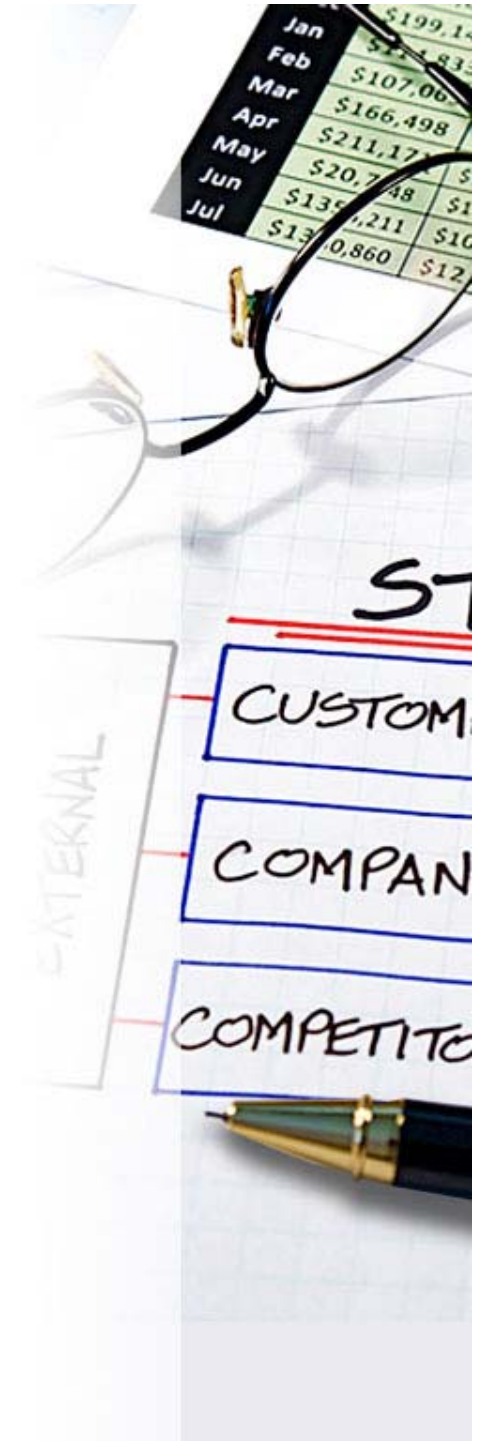
Final destination

- Mutual recognition of providers in different systems based on scope of practice
- Consumers will be responsible for their accommodation and everyday living costs
- Government will not regulate prices for accommodation and everyday living costs
- Providers will publish their prices for care and support (residential or in the home)



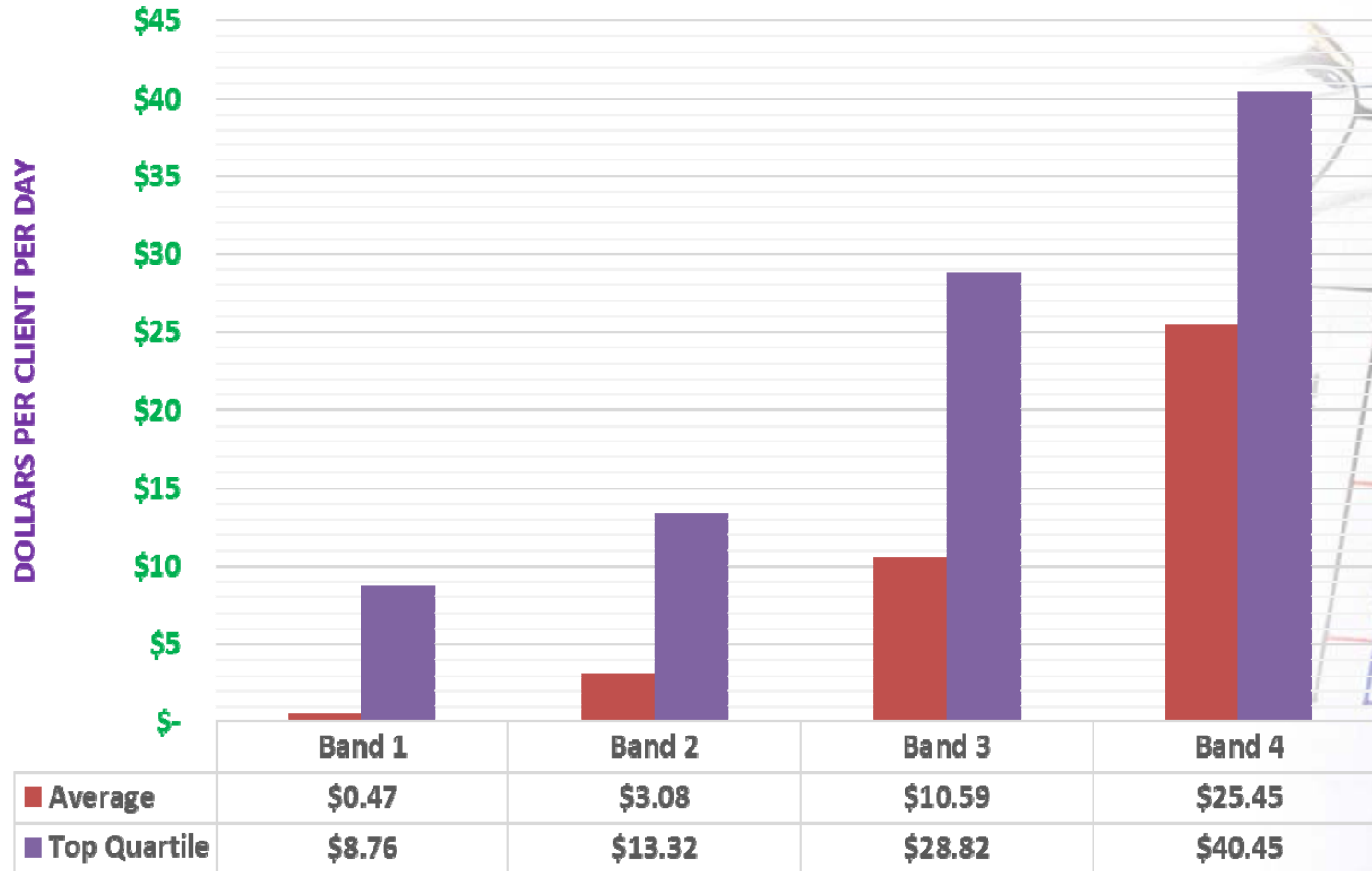


SECTOR UPDATE
FINANCIAL REVIEW
(MARCH 2016)



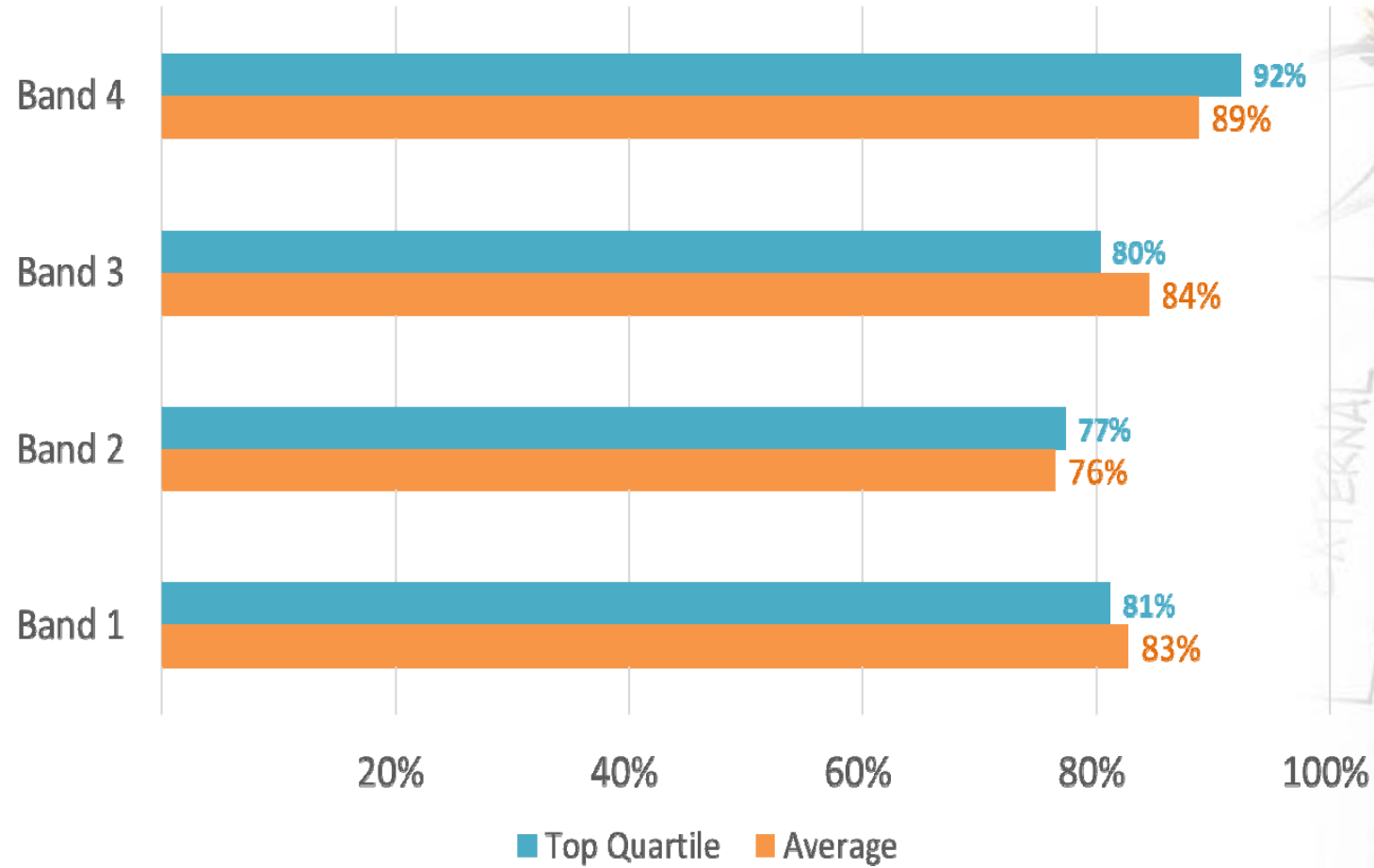
Home Care - Profitability

Survey Results by Band (EBIT)



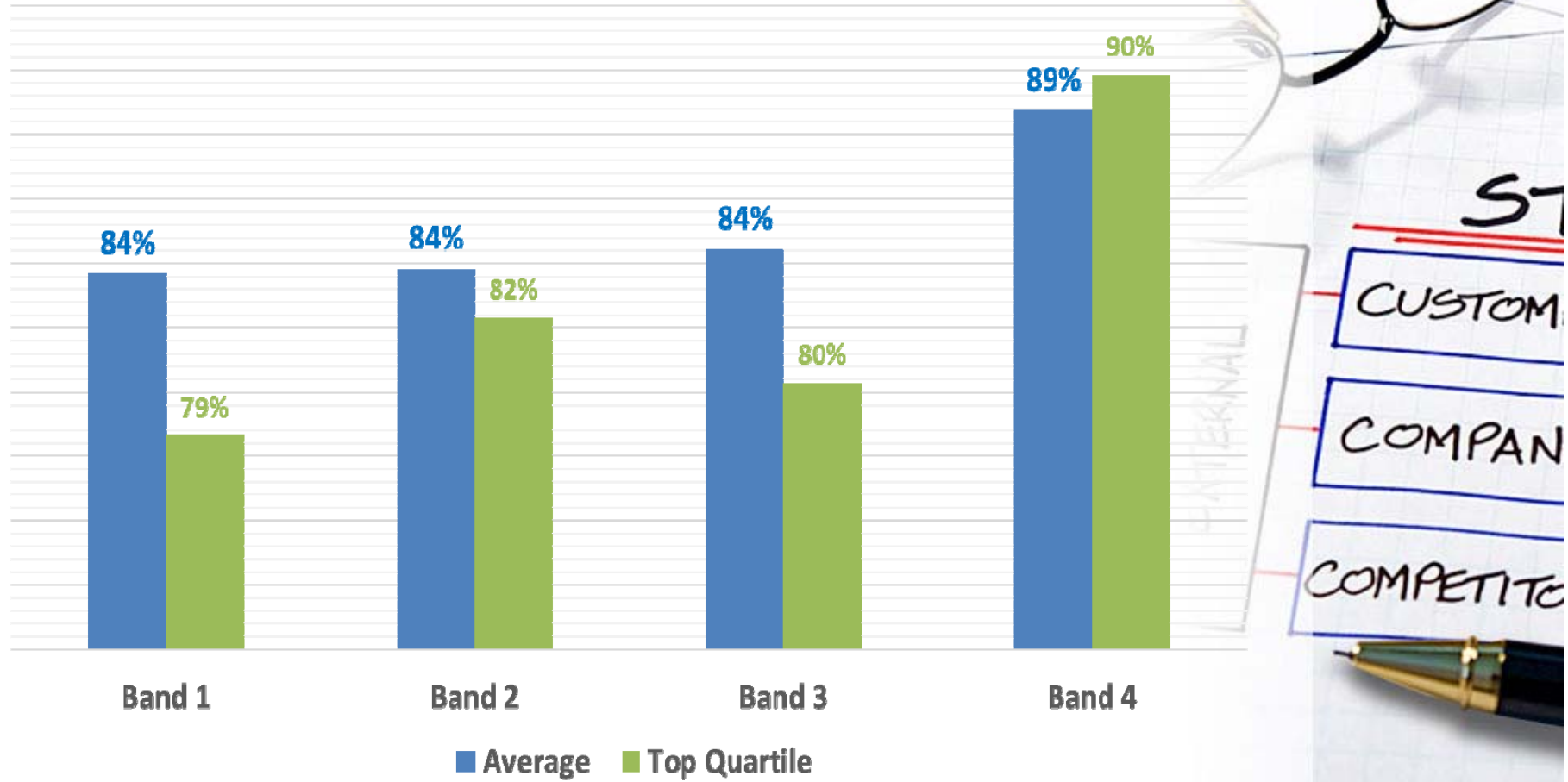
Home Care - Occupancy

Package Utilisation



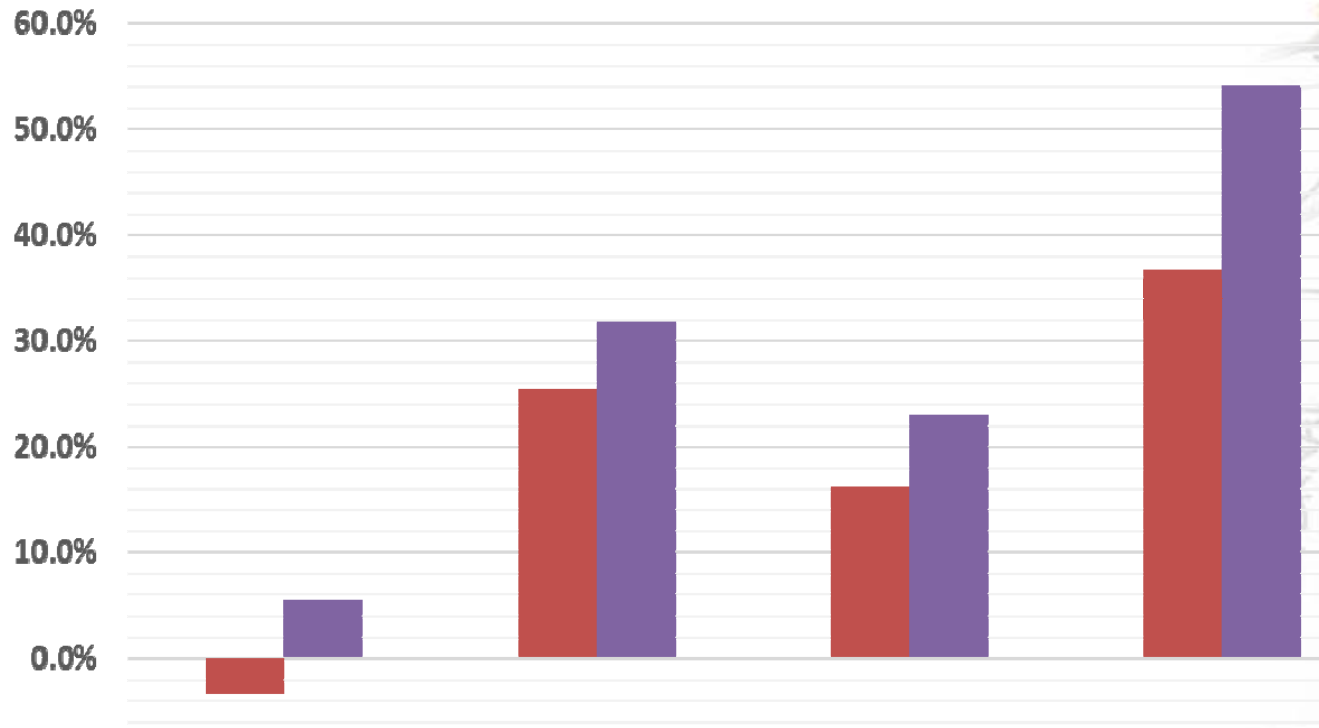
Home Care - Unspent Funds

Revenue Utilisation



Home Care - Margins

Margins on Direct Service Income

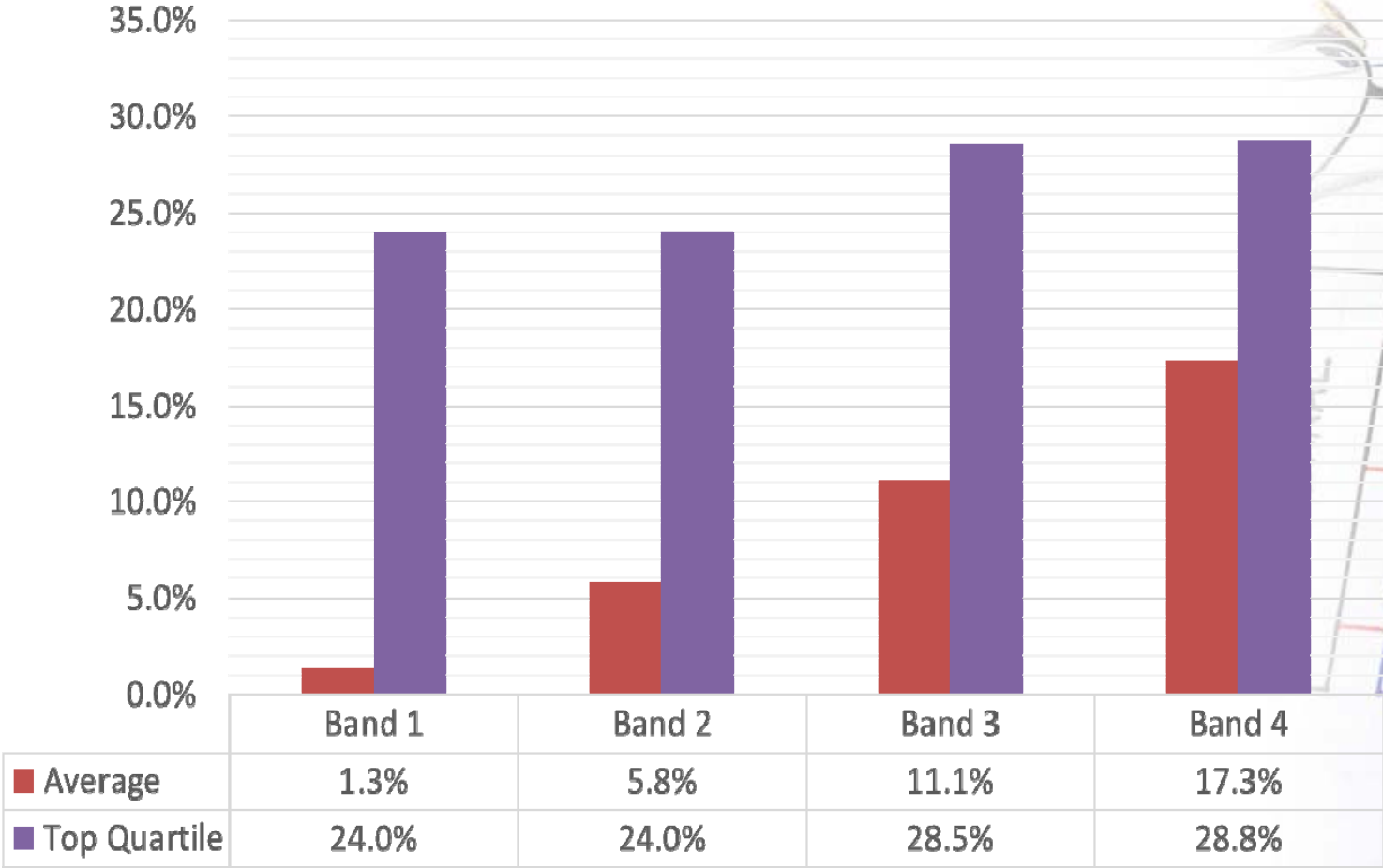


(10.0%)

	Band 1	Band 2	Band 3	Band 4
■ Average	(3.3%)	25.4%	16.2%	36.7%
■ Top Quartile	5.5%	31.7%	22.9%	54.0%

Overall Margin

EBIT as % of Revenue



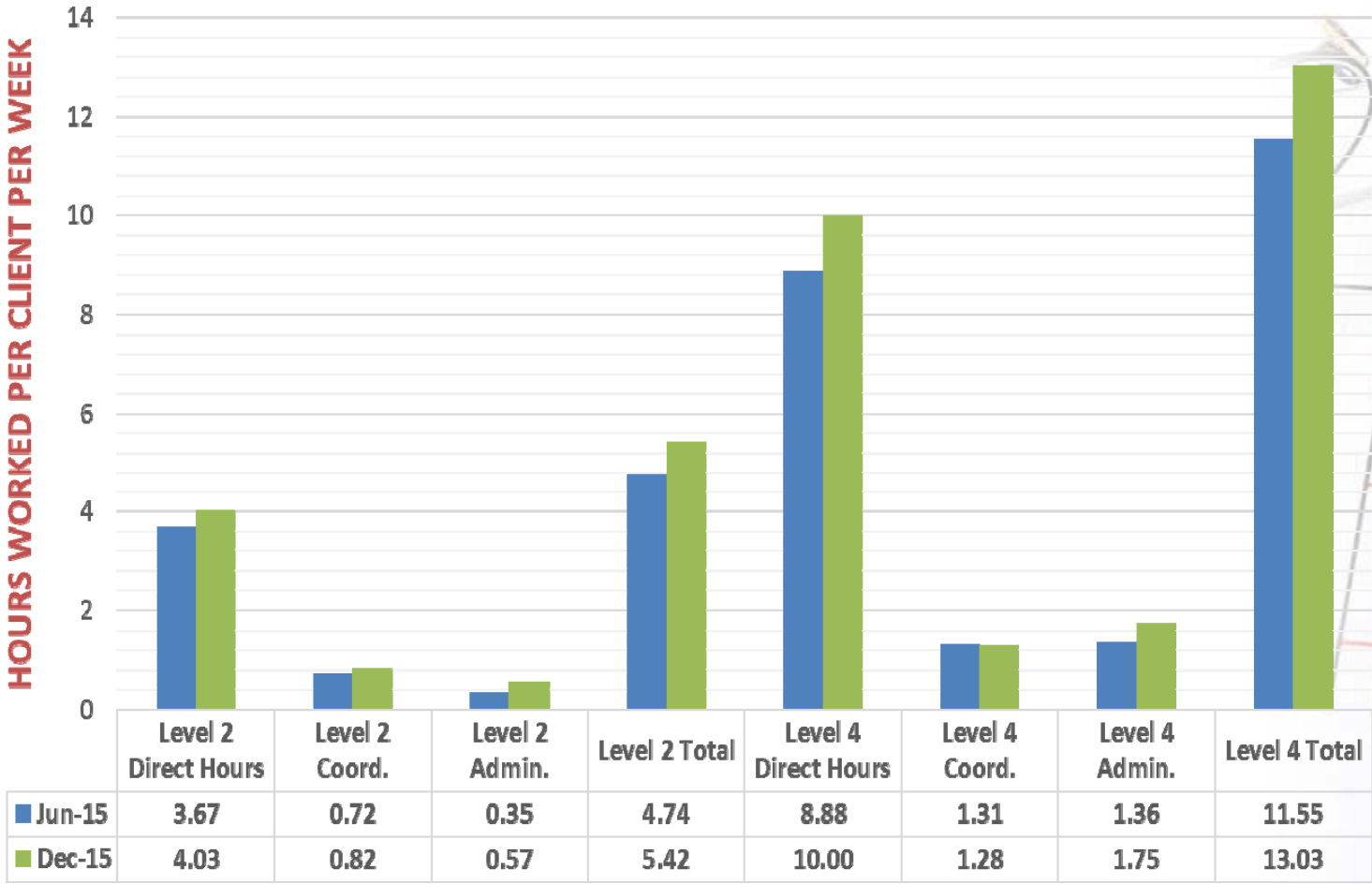
Month	Revenue
Jan	\$199,14
Feb	\$174,83
Mar	\$107,06
Apr	\$166,498
May	\$211,17
Jun	\$20,748
Jul	\$135,211

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COMPETIT



Are clients receiving more hours?

Wage Hours per client per week



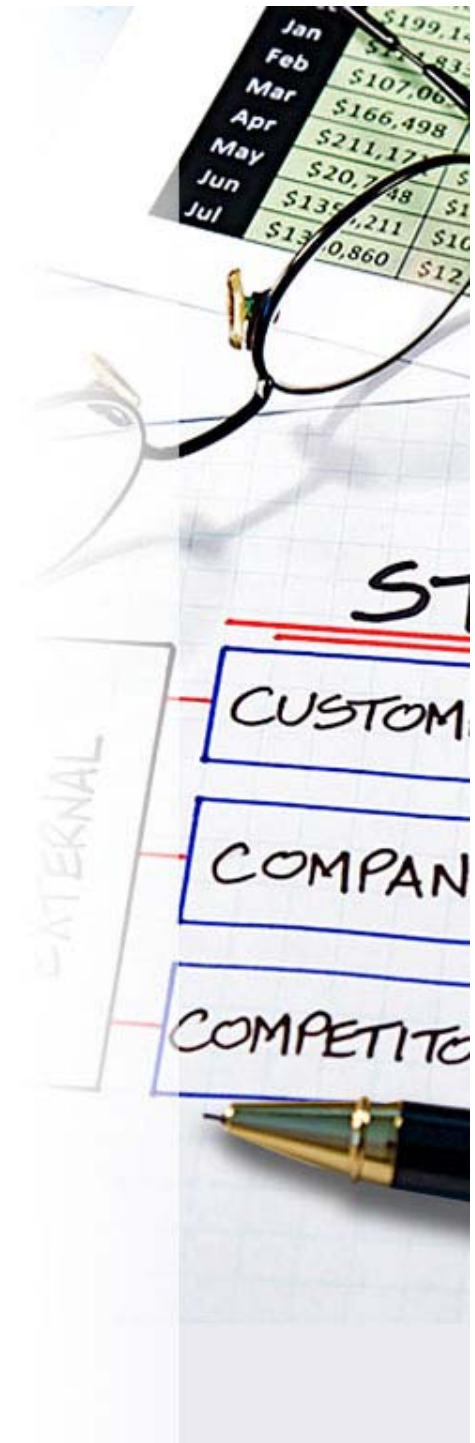
Lessons from the Top 25%

- ✓ Maximising margins on direct services
- ✓ Minimising unspent funds
- ✓ Minimising infrastructure costs
(administration and case management)
- ✓ Monitoring results at a more granular level
- at the activity level and at the package level



What to do moving forward?

- ✓ There will be 5 very important KPIs post February 2017
 1. Client care plan engagement time
 2. Package occupancy
 3. Revenue utilisation
 4. Direct care % to revenue
 5. Employee productivity
- ✓ Systems need to be geared to collect this information at more than one level of the business



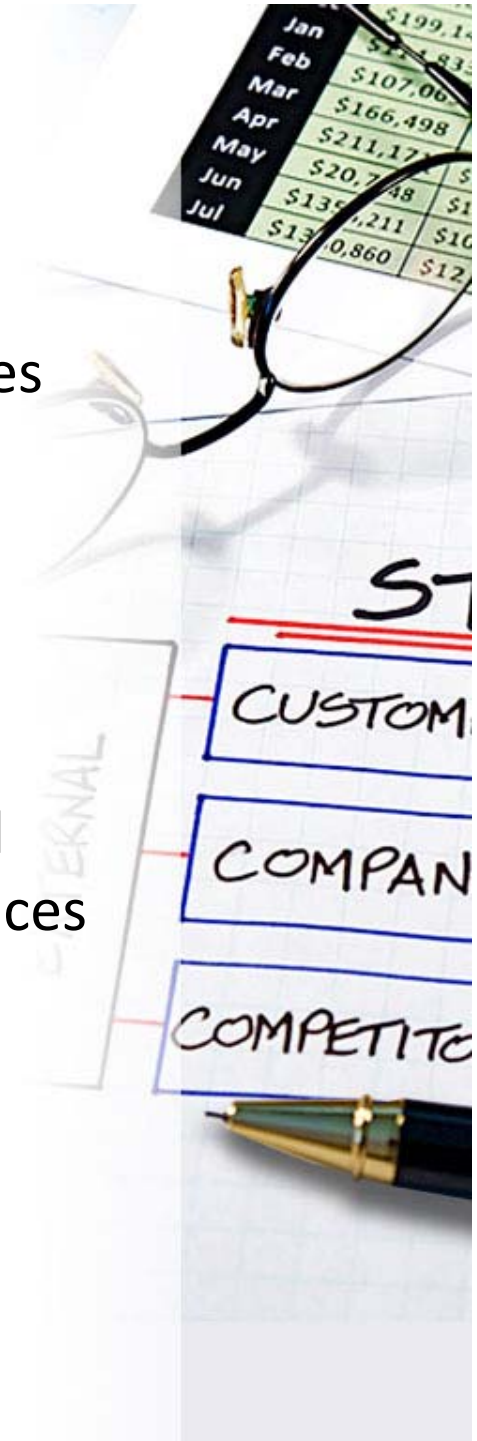
Care Result

Income

- ✓ Daily care fees
- ✓ Income tested fee
- ✓ Extra service fee
- ✓ Respite fees
- ✓ ACFI Subsidies
- ✓ Respite subsidies
- ✓ Expense offset subsidies such as oxygen and enteral feeding

Expenses

- ✓ Direct care expenses
- ✓ Catering
- ✓ Cleaning
- ✓ Laundry
- ✓ Utilities
- ✓ Administration and other support services



Accommodation Result

Income

- ✓ Accommodation charges
- ✓ Daily accommodation payments
- ✓ Retentions from bonds
- ✓ Accommodation supplements and top-ups
- ✓ Interest charged on outstanding bonds

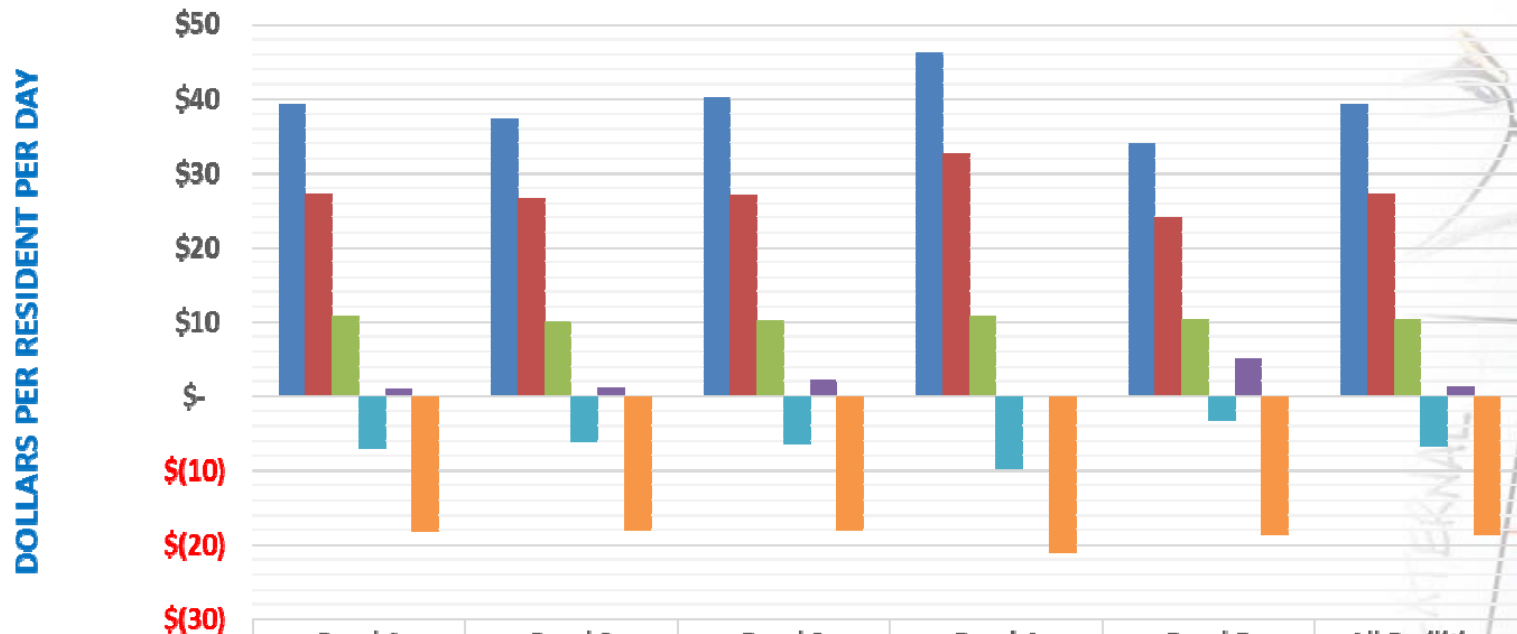
Expenses

- ✓ Property and maintenance costs
- ✓ Property rental
- ✓ Depreciation
- ✓ Amortisation
- ✓ Interest paid on outgoing bonds



Residential Care - The Performance Gap

Average Care Result - By Band

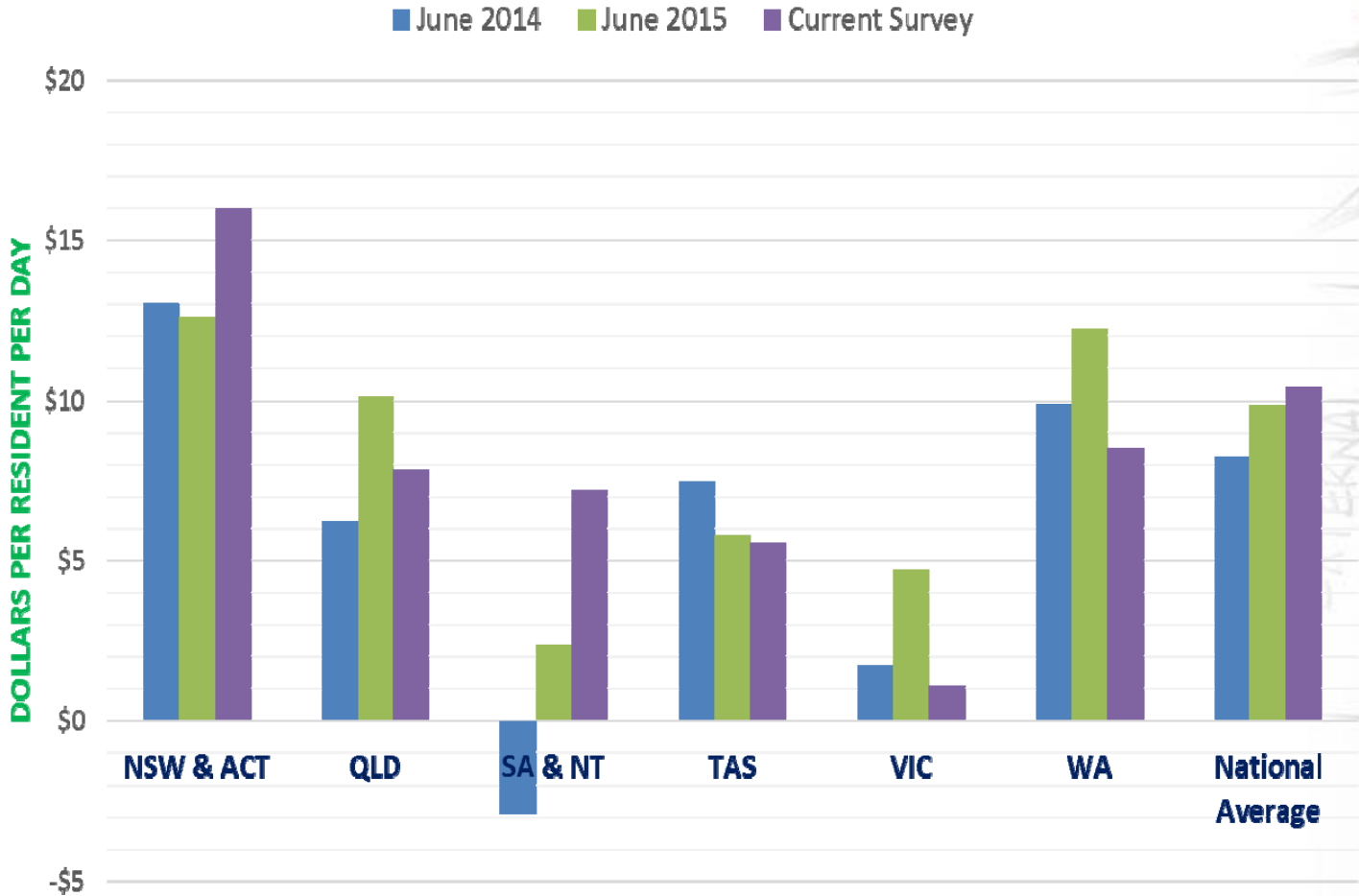


	Band 1	Band 2	Band 3	Band 4	Band 5	All Facilities
■ Top Quartile	39.38	37.17	40.20	46.27	34.02	39.31
■ Top 50%	27.18	26.61	27.04	32.67	24.05	27.33
■ Survey Average	10.73	10.05	10.29	10.76	10.39	10.43
■ Bottom 50%	(7.01)	(6.19)	(6.27)	(10.02)	(3.25)	(6.61)
■ Bottom 75%	0.93	1.00	2.09	(0.15)	5.01	1.33
■ Bottom Quartile	(18.14)	(17.99)	(17.97)	(20.98)	(18.61)	(18.63)



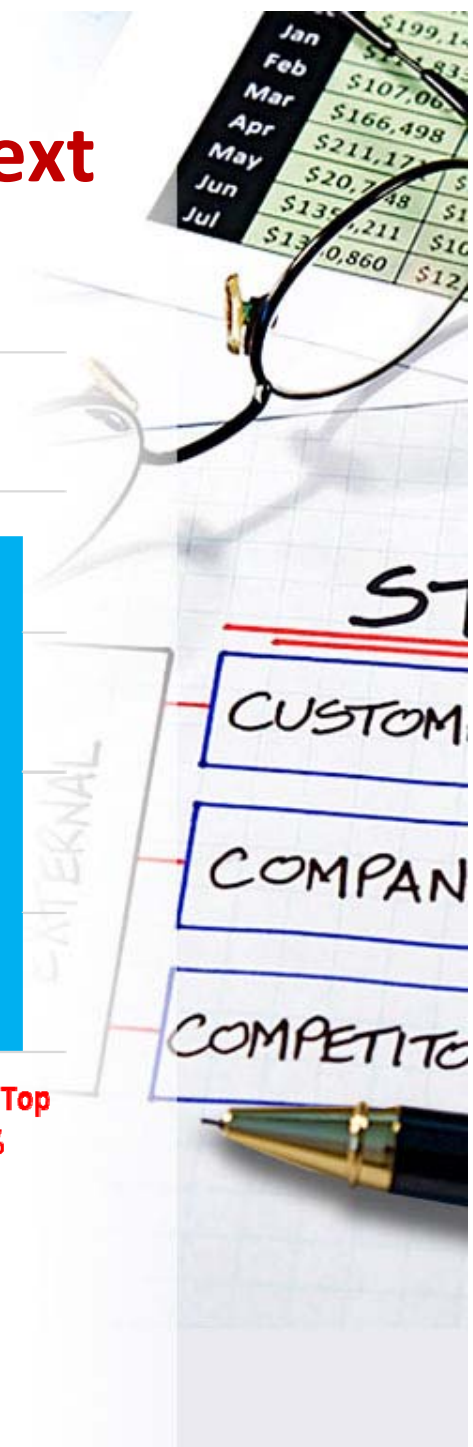
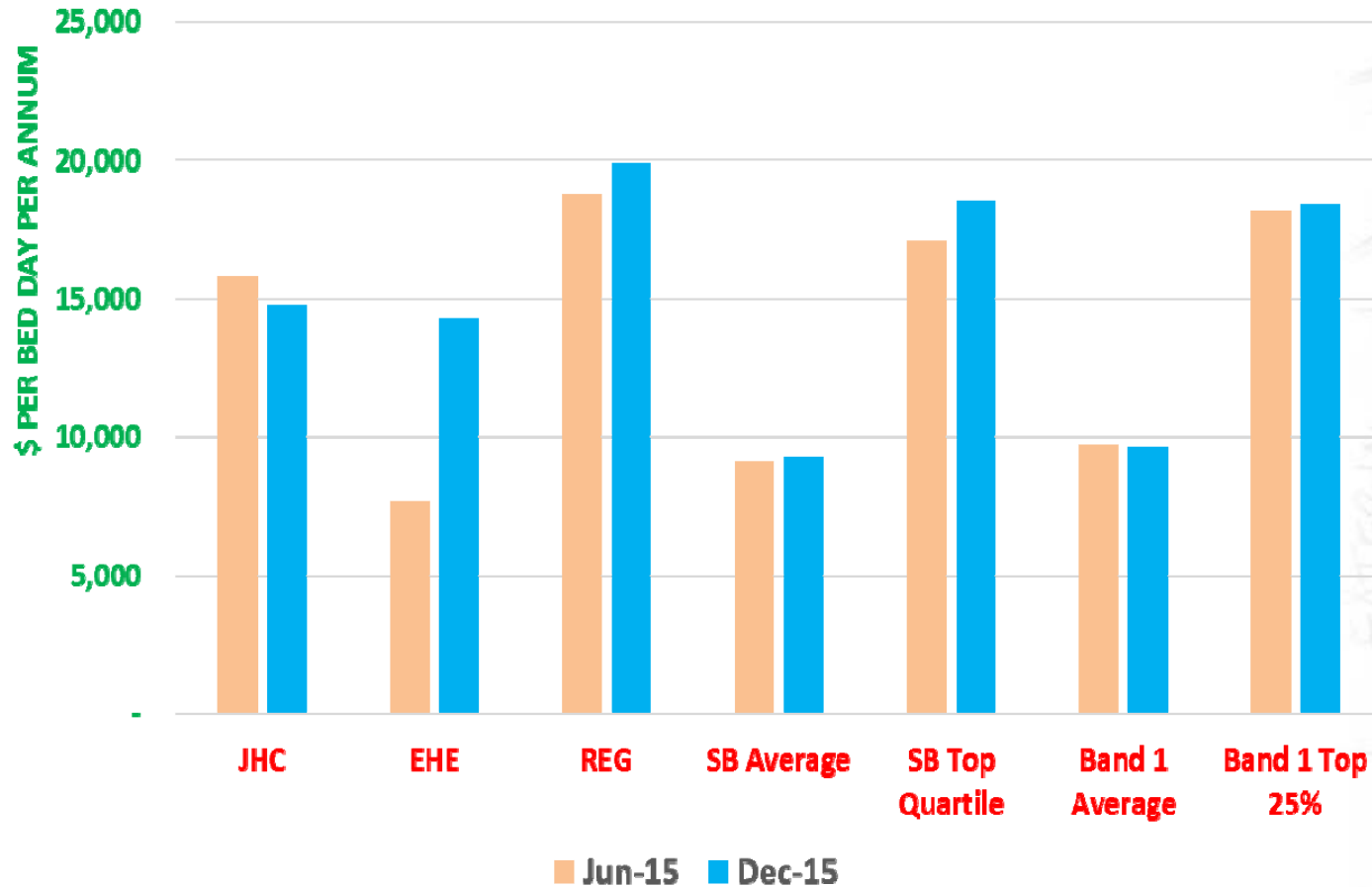
State Analysis

Average Care Result by State



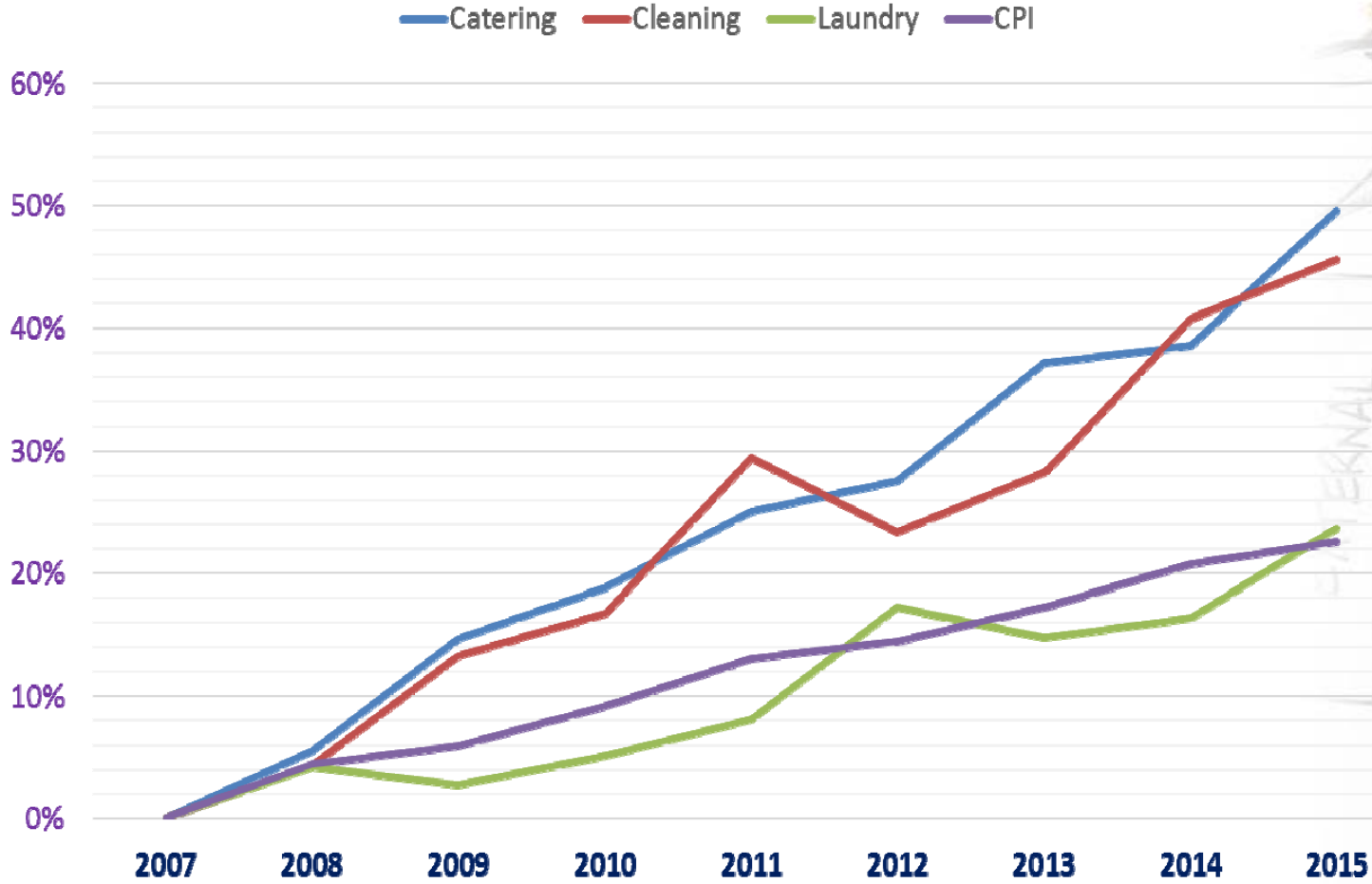
Residential Care - Profitability Context

EBITDA per bed day per annum - Sector Comparison



Hotel Services

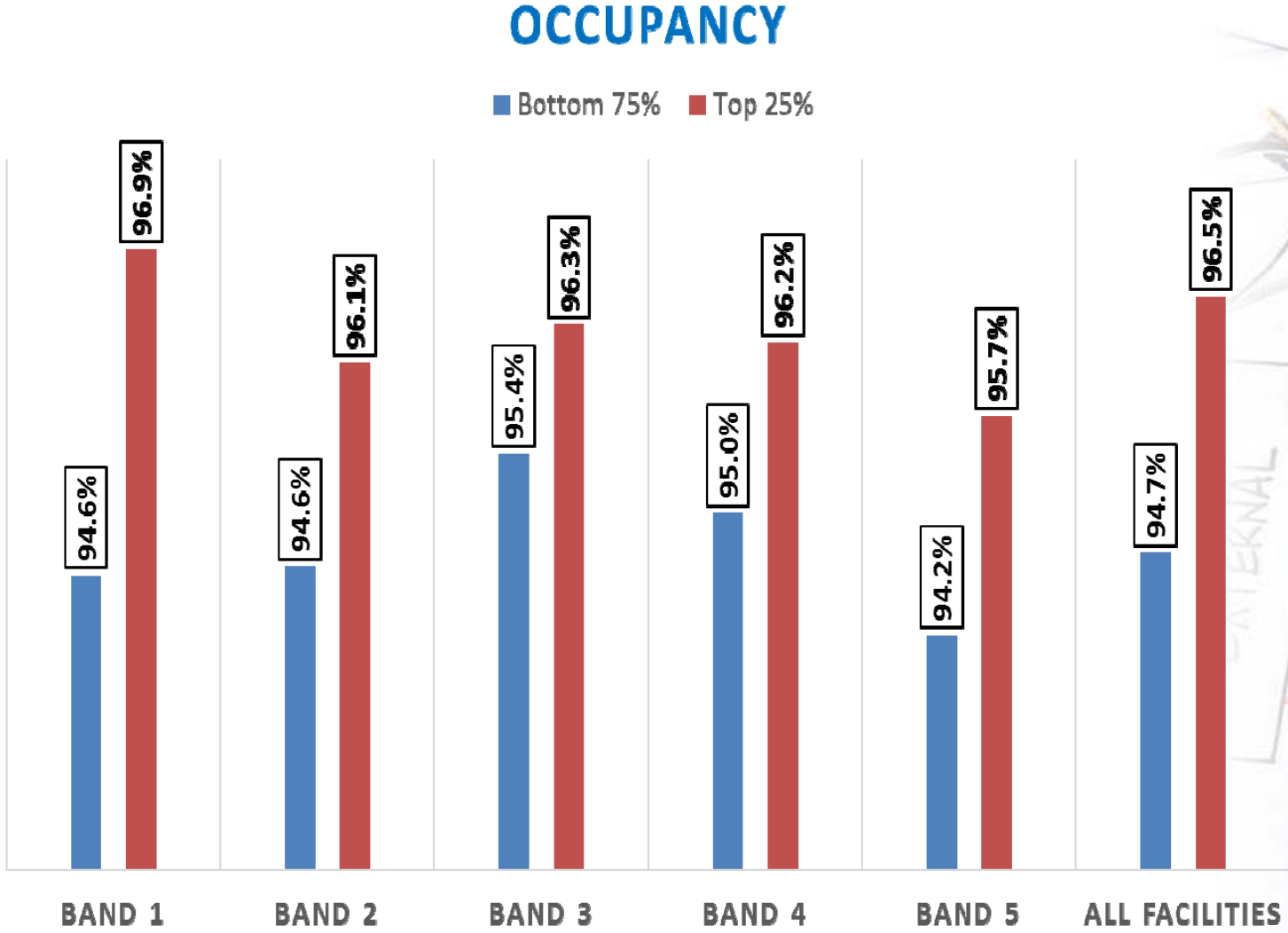
Cumulative increase in hotel services (from 2007)



Jan	\$199,14
Feb	\$174,83
Mar	\$107,06
Apr	\$166,498
May	\$211,17
Jun	\$20,748
Jul	\$135,211

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Residential Care - Occupancy: Top quartile v the rest

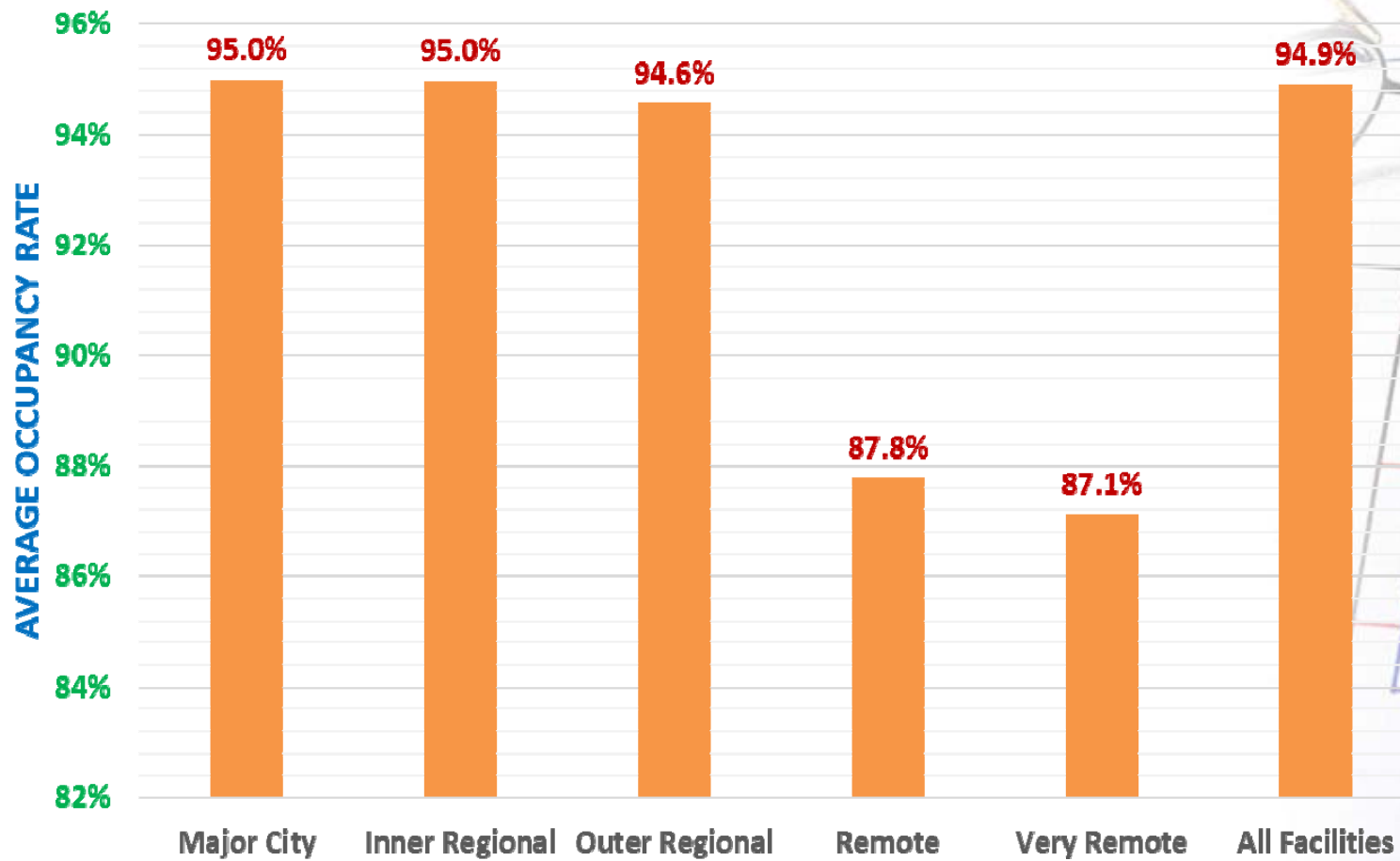


Month	Revenue
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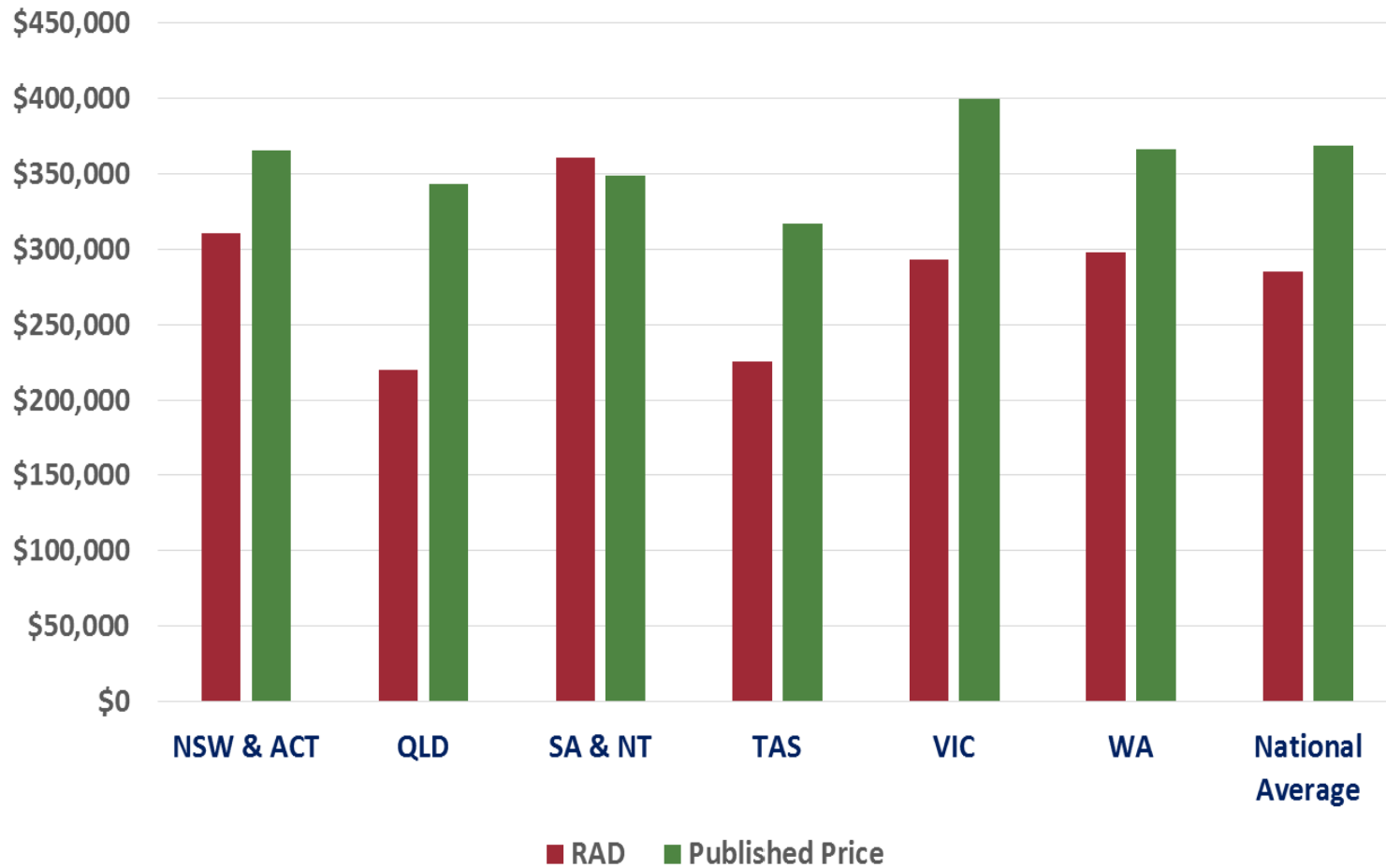
Occupancy Rates by Region

Occupancy by Region



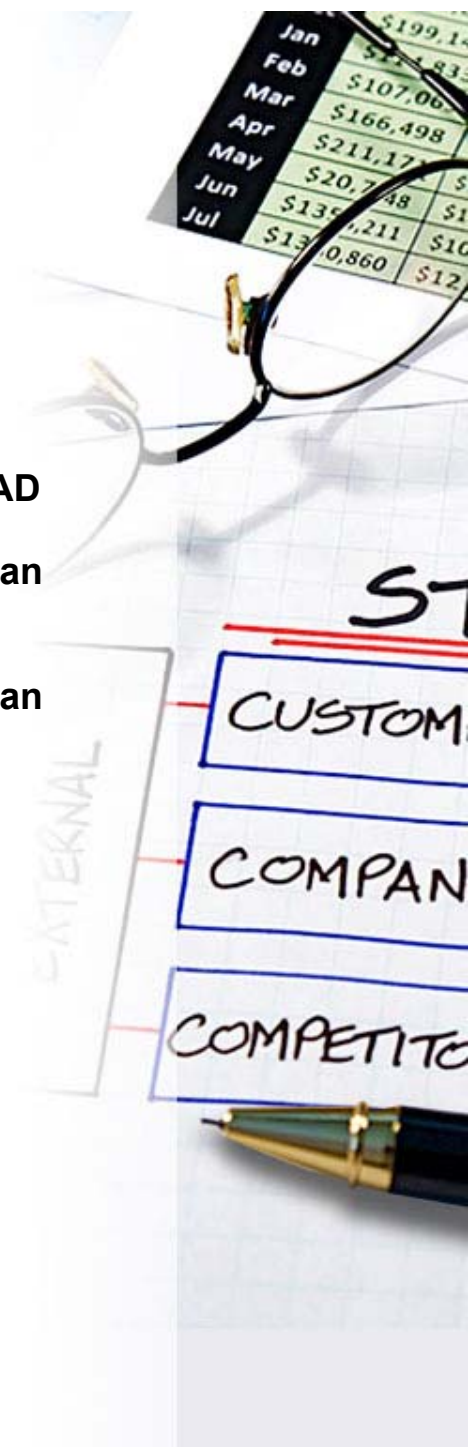
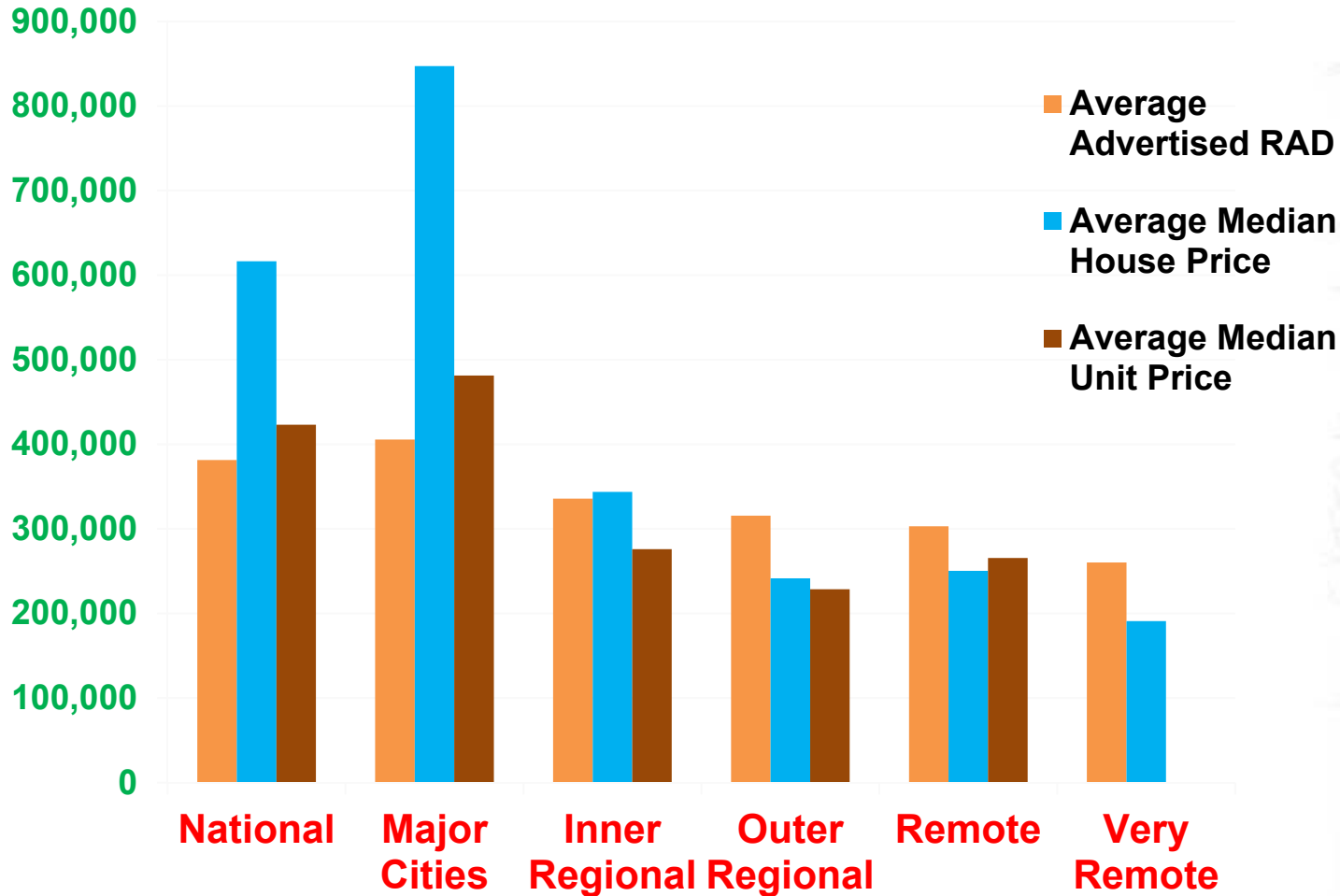
Accommodation Pricing

RAD Amount Compared to Average Published price



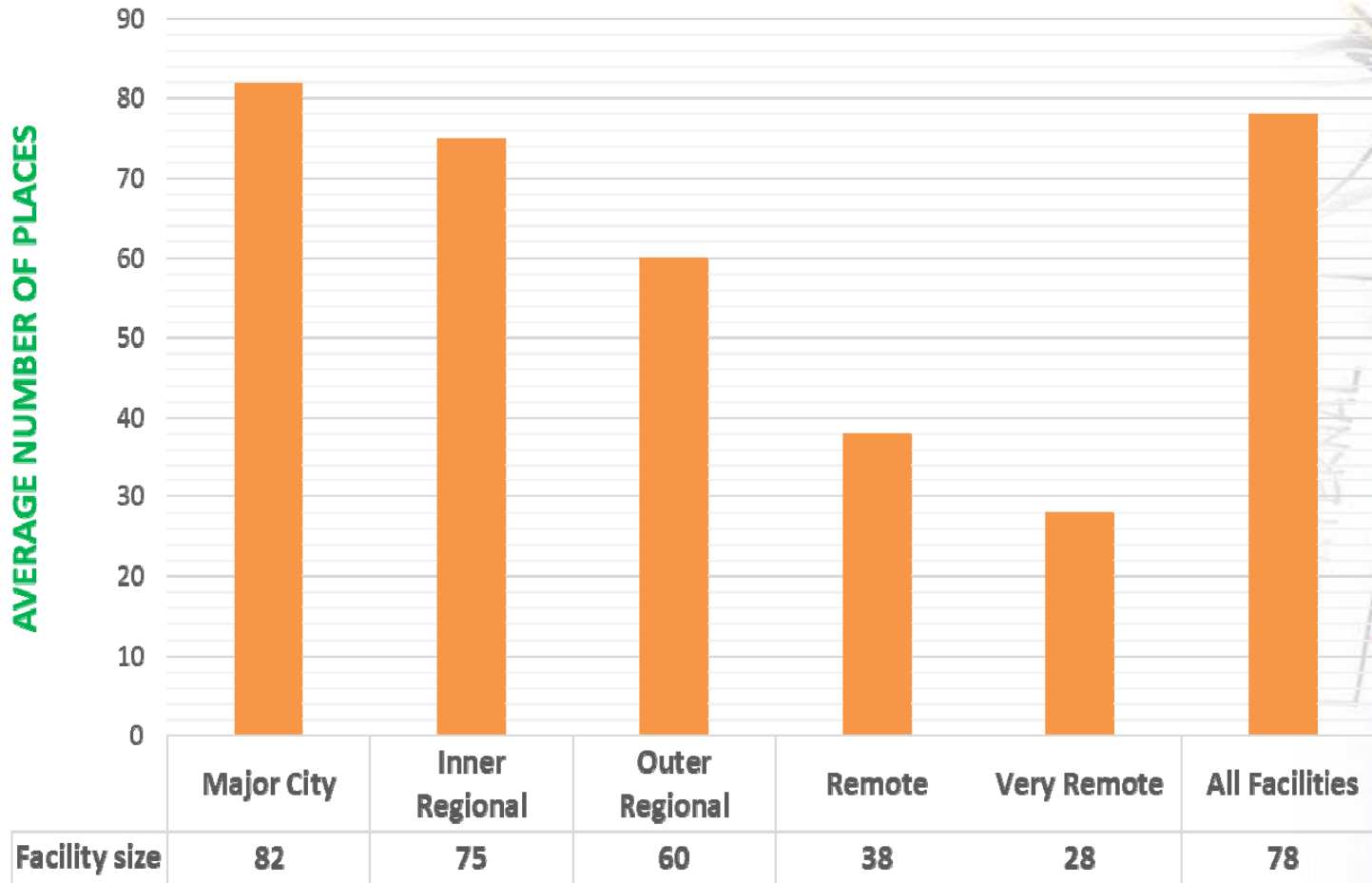
Accommodation Pricing - Regional Emphasis

Accommodation Pricing Across Australia



Size by Region

Average facility size by Region



Month	Value
Jan	\$199,14
Feb	\$174,93
Mar	\$107,06
Apr	\$166,498
May	\$211,17
Jun	\$20,748
Jul	\$135,211

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- ST
 - CUSTOM
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 - COMPETIT

Sourcing additional income

Government regulation

Allows providers greater scope to increase income from accommodation and optional services

Accommodation income

Optional Services

Traditional Income sources



Highly regulated

Significant scope to test the market

As yet significantly under-utilised



Are we there yet?

- ➔ The short answer is no
- ➔ There is a long way to go
- ➔ Many providers are spinning their wheels
- ➔ Lessons from CDC in home care need to be applied to residential care



Consumer choice

- ✓ Embrace consumer choice as an opportunity
 - ☑ The roadmap expects that consumers will need to pay for their ability to choose
 - ☑ New financial products will allow the release of the equity in the home and superannuation funds to pay for aged care
 - ☑ The means test is likely to include all of a persons assets and income including the principle place of residence



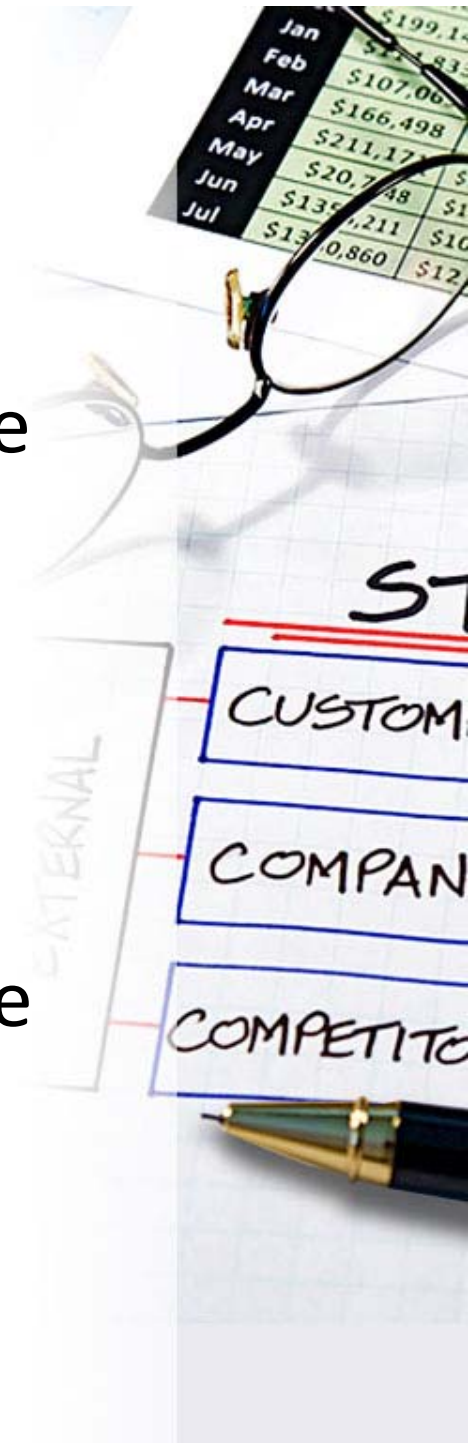
Learn the lessons

- ✓ Know the costs of providing individual services
- ✓ Be realistic in setting prices
- ✓ Be flexible and adapt
- ✓ Use technology wherever possible to gain efficiencies in service delivery



Change business models

- ✓ Most business models that are currently in place will need to change
- ✓ Greater emphasis on marketing and product differentiation
- ✓ Assess level and type of service provision
- ✓ Less reliance on government revenue



Get ready financially

- Make sure your business is on a sound financial footing now
- The 2016 budget changes will require residential aged care providers to look at their business models
- If you are not performing well financially now it may get more difficult in the future



Who loses?

- ✗ Providers that do not change
- ✗ Some smaller community providers in areas of high competition or strategic value (major cities)
- ✗ Those providers who have relied on traditional sources of income and business models and plan to continue on that path
- ✗ Providers who do not invest in infrastructure and technology
- ✗ Consumers in less competitive market places?



Who wins?

- ✓ Larger providers both private/public and not-for-profit
- ✓ NFP's who unlock "lazy" balance sheets
- ✓ NFP's who aggressively consolidate and protect their existing home care market share
- ✓ NFP's who take advantage of traditional integrated living campuses
- ✓ For-profits who traditionally are less conservative and more inclined to take advantage of reforms
- ✓ Consumers
- ✓ Providers who are "courageous"

