

ACS Finance Symposium 2016

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CommBank Health



CommBank **Healthcare**

**Helping to build the
seniors living sector.**

Who is CommBank Health?

National CommBank Health team

- Drives specialisation (policy, credit appetite, regulatory reform and funding changes)
- Dedicated state based specialist portfolios, BDMs and Corporate Finance team

National Not-for- Profit team

- Services our communities financing needs with a deep understanding of community based organisations
- Specialising in policies, credit appetite and key challenges

Sector Specialisation

- Aged Care / Seniors Living (RV & MHEs)
- Hospitals
- Childcare
- Medical Services (GPs, Pathology, Radiology, Dental & Allied Health)

Recent trends in the Aged Care Sector

- 1 **Mergers**
 - Aveo's purchase of Freedom / 370 AIPs in 2016
 - Blue Care / Eureka partnership & acquisition of Fraser Shores
- 2 **Acquisitions**
 - Opal partnership with Stockland
 - RSL Care and RDNS merger
- 3 **Partnerships**
 - Australian Unity acquisition of NSW Home Care

	Aged Care	Home Care Package	CHSP
Age Profile	80+	65+	65+
Medical Need	Medium / High (Dementia)	Low / Medium	Low / Nil
Source:	Department of Social Services		

2015 Aged Care Approvals Round

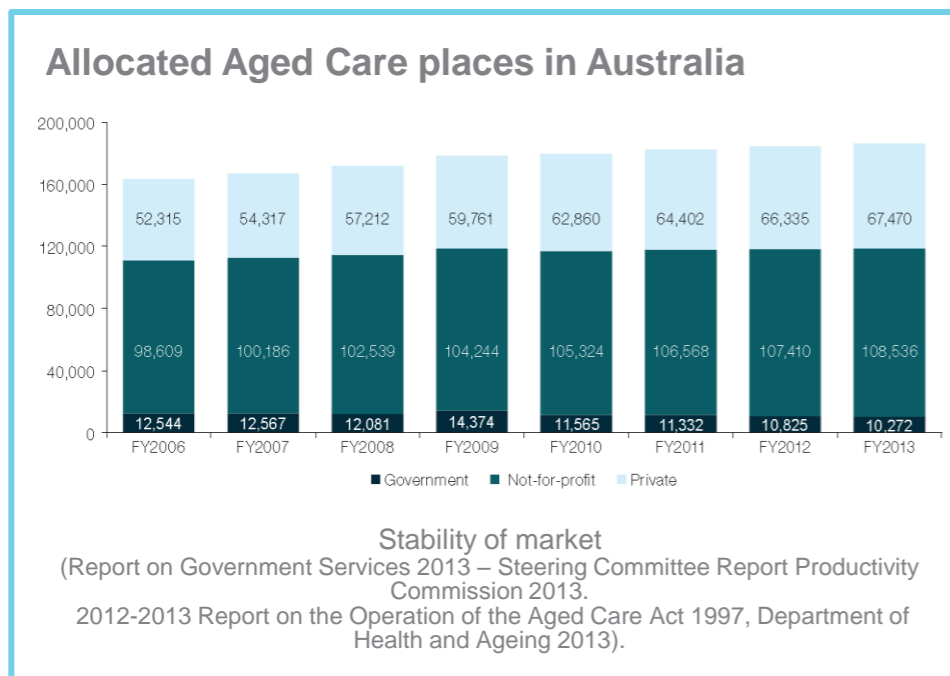
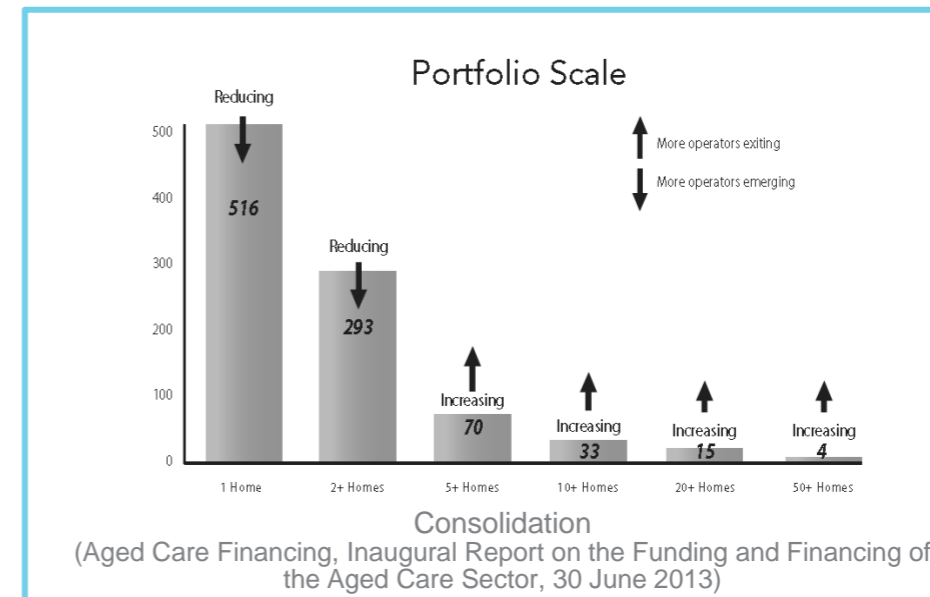
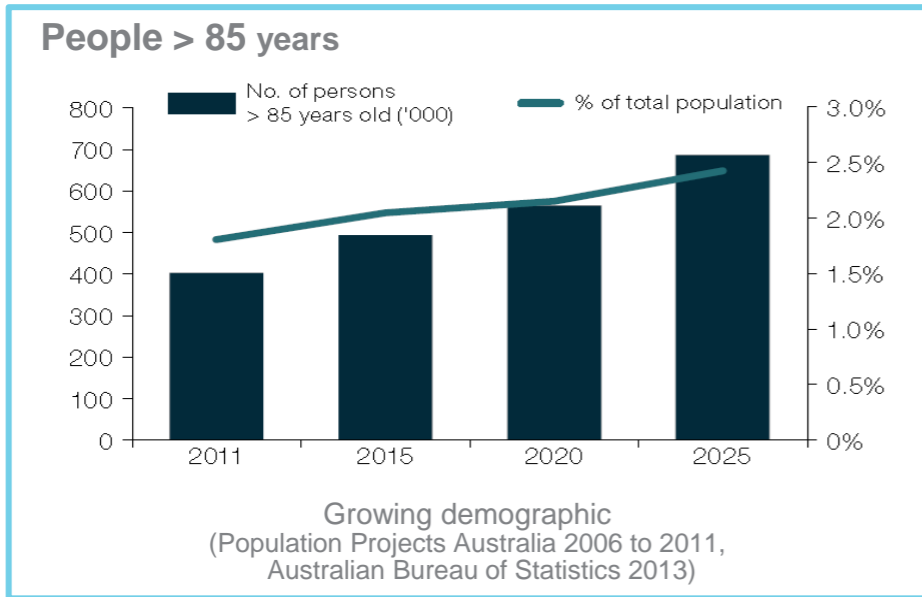
The expansion of the private aged care sector continues, For-Profit providers currently represent ~35 per cent of industry, however they were awarded 63 per cent of the 10,940 new bed licences in the 2015

The top 10 allocations represented ~43% of AIPs, with Catholic Healthcare the only NFP in the top 10

With approx. 38k applications in 2015 - this represented a 3.6x oversubscription

Operators are seeking to develop new beds due to the strong return on capital

Driven by strong demographics



Key Points

- **Growing Demographics:** Ageing Population supports need for additional beds.
- **Portfolio Scale & Consolidation:** Industry consolidation continues, as Operators look to gain efficiencies which will result in opportunities for the mid-market to capitalise on the activity.
- **Allocated Aged Care places:** The Government continues to respond to the needs of the Ageing Population with historically increasing allocation of beds year on year.

Funding underpinned by Government

Government Department for Funding	Accommodation for Seniors	Hospital	Aged Care	Retirement Living	Manufactured Home Estate	Personal Residence
	Government Funding Available					
Department of Health Medical and Assisted Living Care	Medicare	✓	✓	✓	✓	✓
	Aged Care Funding Instrument ("ACFI") / Accommodation Supplement		✓			
	Home Care Package			✓	✓	✓
	Commonwealth Home Support Programme ("CHSP")			✓	✓	✓
Department for Social Services Welfare and Accommodation Support	Aged Pension / Welfare Supplements	✓	✓	✓	✓	✓
	Commonwealth Rent Assistance ("CRA")				✓	✓ (only for Renter)

Decouple Care Funding from Accommodation

Care Funding aligned to resident needs and outcomes

Accommodation cost will be funded by residents

Continued move towards Consumer Directed Care

Co-payment to supplement government inevitable

The funding model is changing

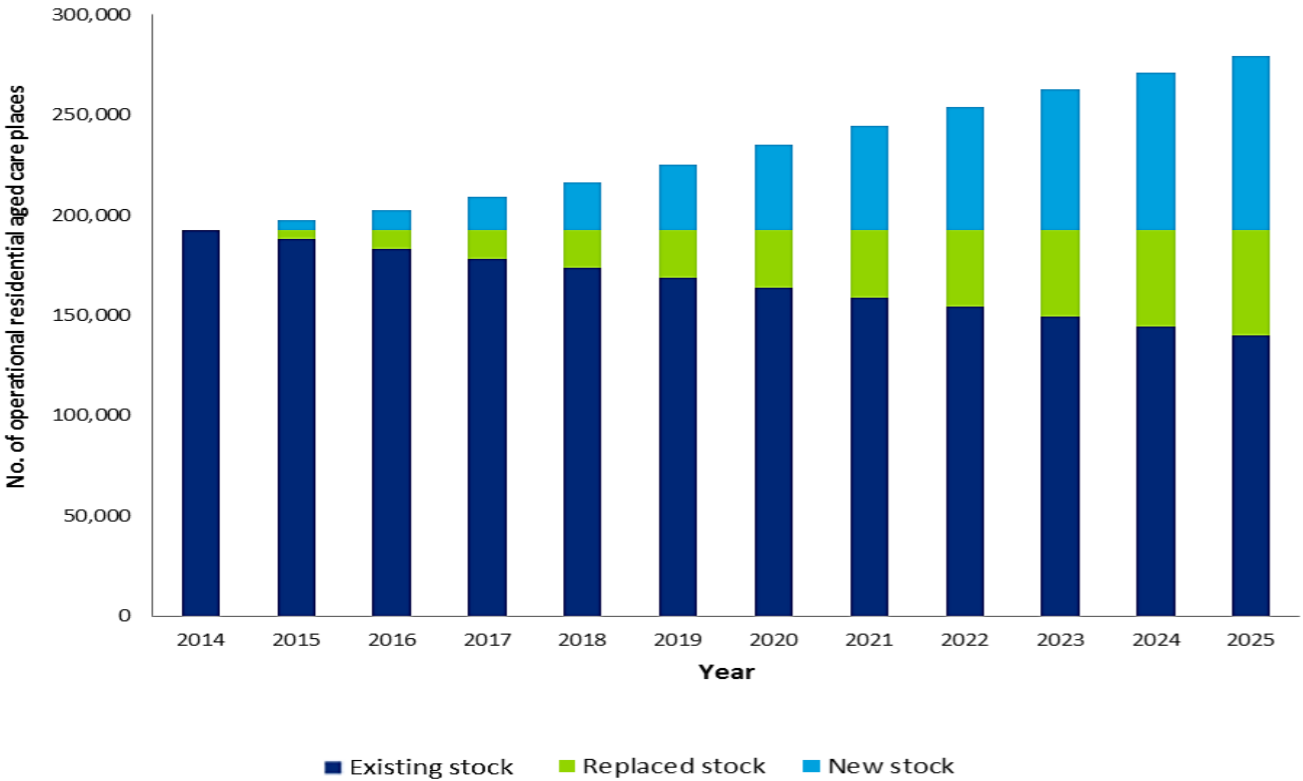
	Medicare (Hospital Bed)	ACFI (Aged Care Bed)	Home Care Package	CHSP	CRA	Aged Pension
Cost to Government	\$1,800 per day per bed	\$140 to \$200 per day per bed	\$22 to \$130 per day per package	\$ subject to resident need	\$121 per fortnight per couple	\$1,307 per fortnight per couple
Age Profile	All Ages	80+	65+	65+	All Ages	65+
Medical Need	High	Medium / High (Dementia)	Low / Medium	Low / Nil	N/A	N/A
Source:	Australian Hospital Statistics	Department of Social Services			Department of Human Services	

Medicare Cost Retirement Age	Life Expectancy				
	75	80	85	90	95
65	\$130,100	\$250,700	\$433,900	\$705,400	\$1,092,900
70	\$61,900	\$153,800	\$292,700	\$498,500	\$792,200
75		\$72,600	\$178,600	\$344,500	\$557,100
80			\$83,700	\$202,600	\$371,300
Source: Australian Institute of Health and Welfare 2014					

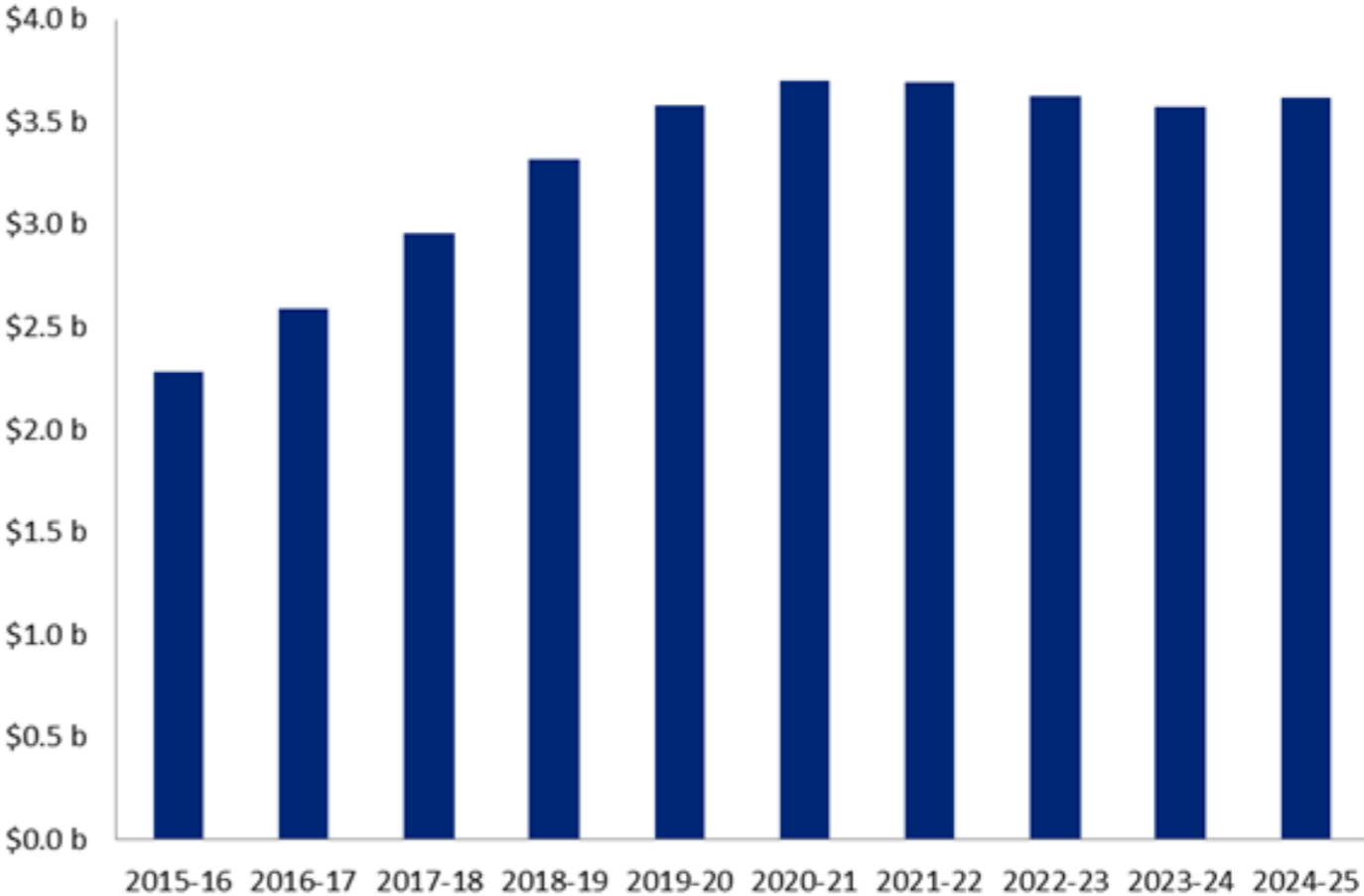
The Aged Care Road Map is seeking to provide a consumer driven, market based, sustainable aged care system

Significant capital required to meet demand

Number of Aged Care places required

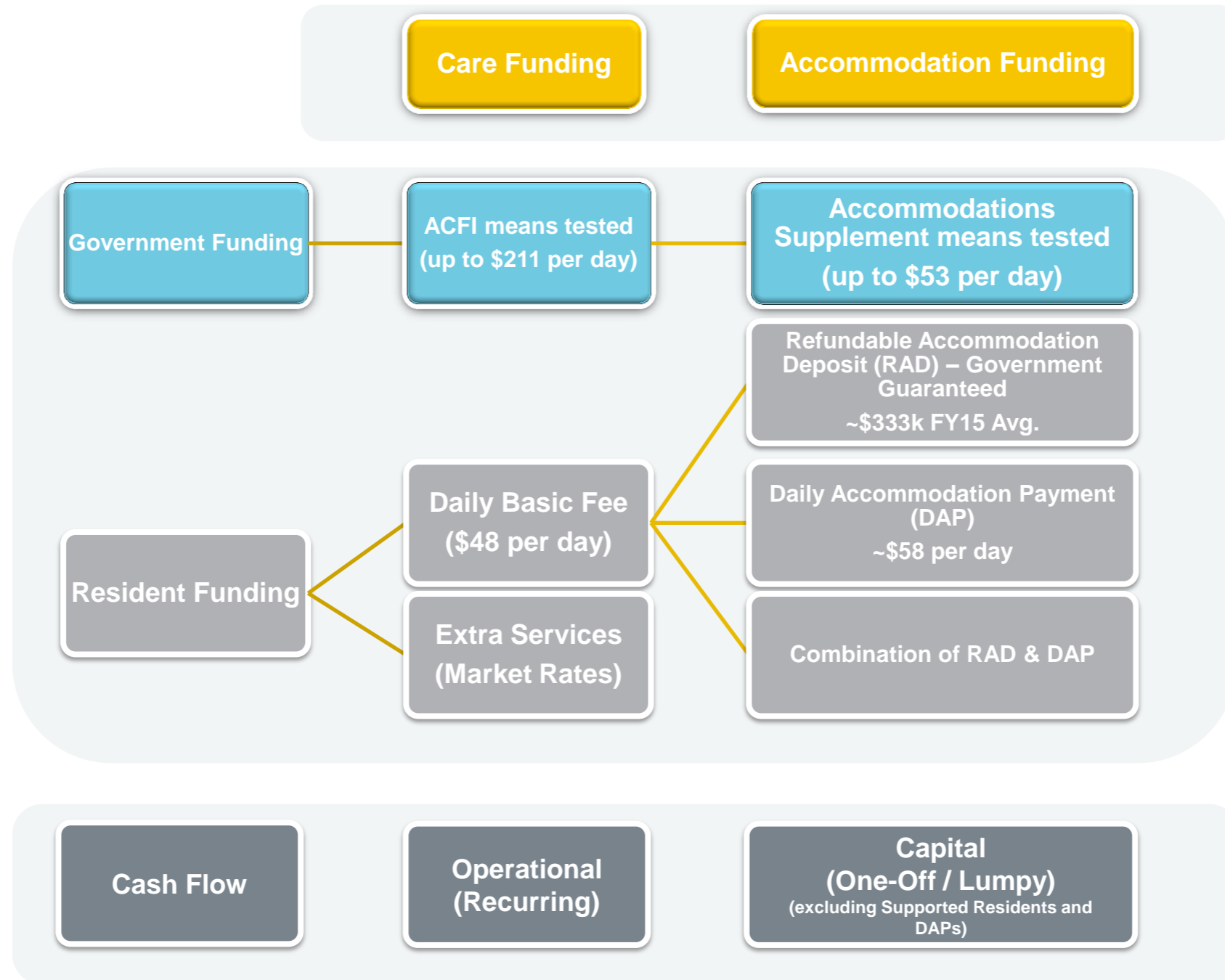


Future annual investment requirement



The industry requires ~70k beds over the next 10 years to meet market demand. This equates to ~\$2.5bn to \$3.5bn capital per annum. Avg. new bed capital expenditure is ~\$250k to \$350k per bed

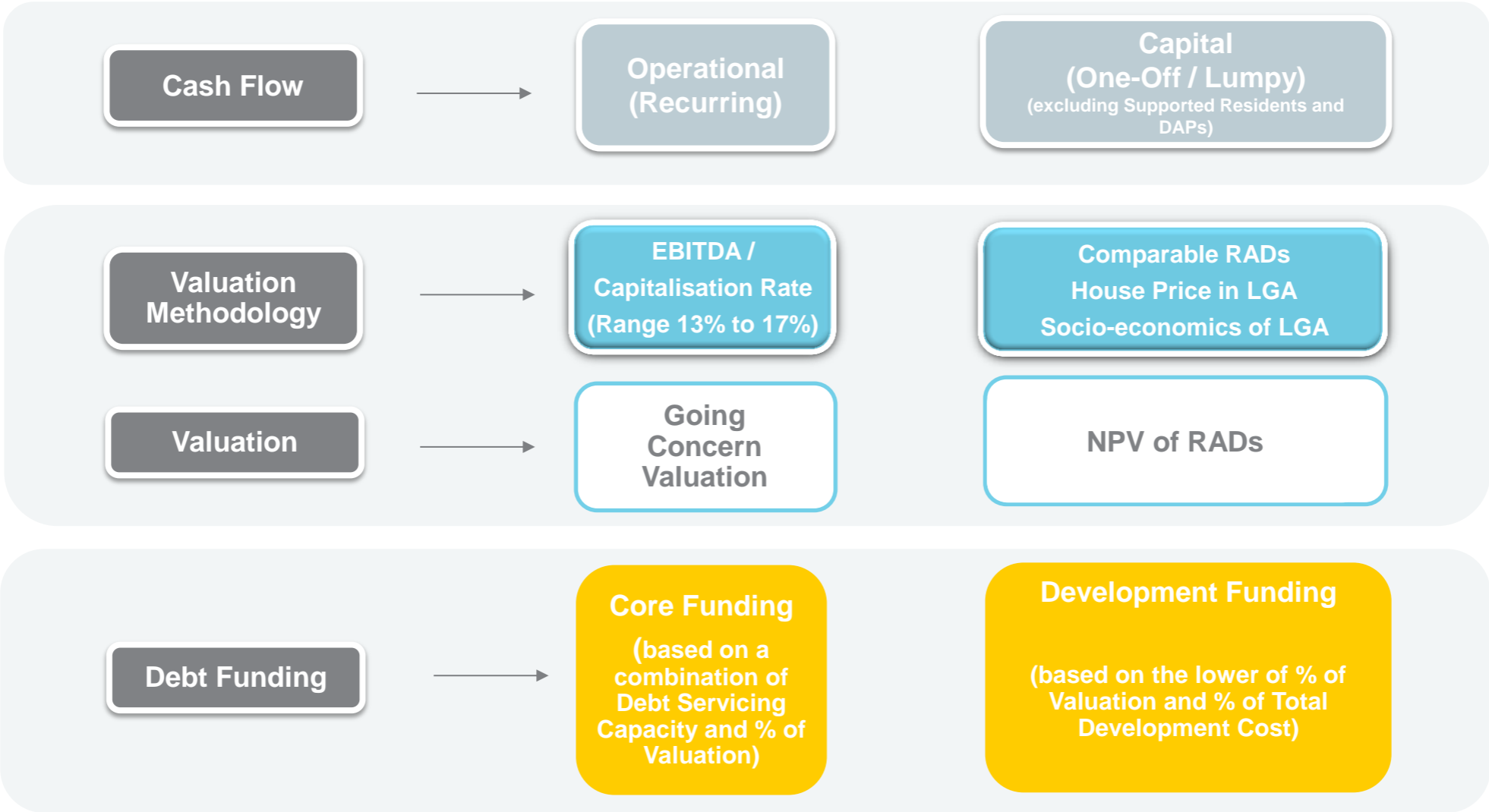
The Business Model



How do Banks Fund the Business Model?

1 Going Concern Value – Core Debt Capacity based on Recurring Operational Cash Flows

2 Development Value – Development Debt Capacity based on Capital Inflows (new RADs)



Significant capital required to meet demand

Development Considerations	Aged Care
Land Cost	Acquisition of Land (DA Approvals)
Regulatory Approvals / Licensing	Application for AIPs (subject to ACAR / LGA under bedded)
Construction Costs	Building Contract (D&C or Fixed Price / Fixed Time)
Other Considerations	Architects, Market Feasibility Study, Valuation, Council Approvals, Other Regulatory Approvals, Finance Approval

Greenfield development

"Borrow to Build"

Cost Considerations

	Per Bed	100 Bed Facility
Land Cost	\$80k to \$120k	\$10.0M
Construction + Soft Costs	\$150k to \$200k	\$20.0M
Total Cost	\$250k to \$350k	\$30.0M

Valuation Analysis

Recurring Earnings	\$15k to \$20k	\$1.8M (\$18k per bed)
Capitalisation Rate	Range - 13% to 17%	15%
Core Valuation	Range - \$90k to \$150k per bed	Gross Core Valuation: \$12.0M NPV Day 1: \$10.0M

Development Valuation

Key Assumptions:
 RAD / DAP Ratio 57% & Mix (90%/10%)
 Supported Resident Ratio 38%
 Vacancy Ratio 5%

Key Assumptions:
 51 RADs – Avg. RAD 550k
 6 DAPs
 38 Supported Resident
 5 Vacant

Gross RAD Valuation: \$28.0M
 NPV RADs: \$25.0M

Development Return (Ungearred)

Gross Development Return: \$10.0M (33%)
NPV Development Return: \$5.0M (17%)

Senior Bank Funding

Senior Bank Funding

Senior Banks generally lend the lower of:
 - 80% of Total Development Cost
 or
 - 70% of Core Valuation
 - 60% of NPV of RADs

Lower of:
 Total Development Cost: \$24.0M
 or
 Core Debt: \$7.0M
 Development Debt: \$15.0M
 Total Debt: \$22.0M

Return on Equity (Geared)

Gross Development Return: \$18.0M (225%)
NPV Development Return: \$13.0M (163%)

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Worked example of an acquisition

"Borrow to Acquire"		
Valuation Analysis		100 Bed Facility
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Capitalisation Rate	Range - 13% to 17%	15%
Core Valuation	Range - \$90k to \$150k per bed	Core Valuation: \$12.0M
RAD Valuation	Key Assumptions: Current RAD Pool / Uncollected RADs Significantly Refurbished (Yes / No)	Key Assumptions: Current RAD Pool: \$15.0M (30 RADs @ \$500k) Uncollected RADs: \$10.0M (20 RADs @ \$500k) RAD Valuation: \$25.0M NPV Uncollected RADs: \$8.0M
Total Valuation		Gross Valuation: \$37.0M Net Valuation Consideration: \$20.0M Ungearred Cash Yield: 15% Ungearred Return on RADs: 25%
Senior Bank Funding		
Senior Bank Funding	- 70% of Core Valuation - 60% of NPV of RADs and DSCR: > 1.50x	Core Debt: \$8.4M Development Debt: \$4.8M Total Debt: \$13.2M
Return on Equity (Geared)		Geared Cash Yield: 50% Geared Return on RADs: 63%

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ACFI changes impact of earnings and valuation

1 Funding rates for CHC will grow at a slower pace than activities of daily living and behaviour components

2 The scoring system and points allocation changes means some residents may move categories into a lower funding bucket

3 Pain management from allied health specialist will likely become a fee for service offering going forward due to stringent servicing requirements

A Banker's view on the impacts

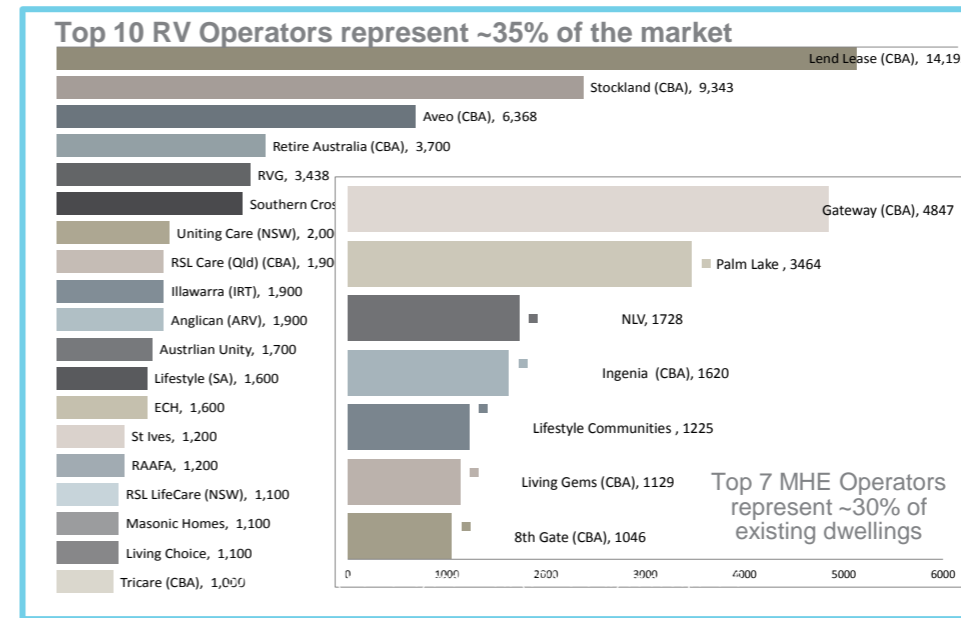
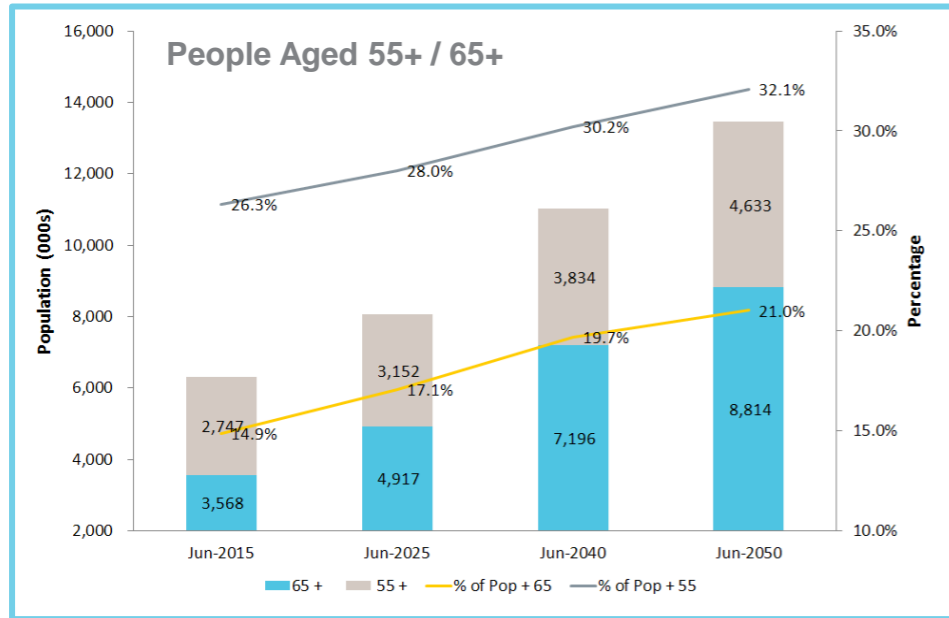
Historical ACFI Per Bed (Sept)	Unit	Sep-12	Sep-13	Sep-14	Sep-15	CAGR
National Avg. ACFI (ACFI Monitoring Report)	\$	135	141	153	164	6.7%

Key Assumptions for Forecast	Unit	Detail	Commentary
Avg. ACFI Reduction per day	\$	20.0	CHC impact from Jan 17
Resident Turnover p.a.	%	33.0%	Existing Residents Grandfathered
EBITDA Impact as % of Revenue	%	50%	Due to co-payment & opex optimisation

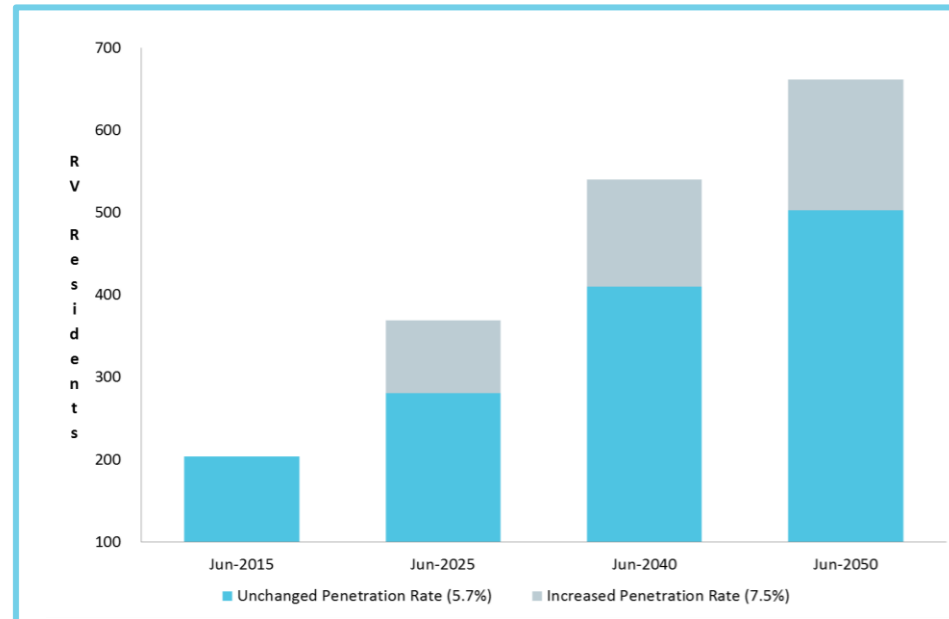
Per Bed	Unit	Sep-15	FY17	FY18	FY19	CAGR
National Avg ACFI	\$	164	157	151	144	-4.2%
ACFI Revenue p.a.	\$	59,860	57,427	54,993	52,560	
Resident + Other Revenue	\$	25,654	25,654	25,654	25,654	
Total Revenue	\$	85,514	83,081	80,648	78,214	-2.9%
Change in Rev p.a.	\$		-2,433	-2,433	-2,433	
Cumulative p.a.	\$		-2,433	-4,867	-7,300	
EBITDA Impact (50%)	\$		-1,217	-2,433	-3,650	
EBITDA	\$	21,864*	20,647	19,431	18,214	-5.9%
EBITDA Margin	%	26%	25%	24%	23%	
Core Value assume 15% Cap. Rate	\$	145,760	137,649	129,538	121,427	

* Per FY14 Top Quartile FP and NFP

+65 demographics



Demand for RVs



Current Demand rates in NZ ~10% and US ~12%
 (Penetration Rate is the % of over 65 year olds residing in Retirement Village)
 Source: Retirement Living Council)

Key Points

- **Growing Demographic:** Need for additional seniors specific living.
- **Consolidation:** Resulting in efficiencies of scale.
- **Government Funding:** The recent Aged Care Reforms seek to redirect funding from Aged Care to Home Care (ageing in place).
- **Increased Product Acceptance / Demand due to:**
 - Improved product (design, service and location).
 - Changes in social structure (choice & less reliance on family). Living longer in low level care environment.
 - Increased financial capacity / provides liquidity / access to equity in home.
 - Ability to optimise CRA / Aged Pension by structuring asset / income test outcome.

Access to care and assistance is increasingly important

Market Segment	Aged Care	Retirement Villages	Manufactured Home Estates
Market Size	▪190,000 beds	▪112,000 independent living units (ILUs)	▪2,690 total parks
	▪176,000 residents	▪180,000 residents	▪170 dedicated seniors MHEs
			▪750 mixed use parks
			▪51,800 dwellings
Age Profile	▪85+	▪65+	▪55+
Services Provided by Operator	▪Assistance with daily living activities	▪Basic support for independent living	▪Typically Nil
	▪Medication assistance and complex health care	▪Little to no medical or clinical care service	
Care Needs	▪ Medium / High (Dementia)	▪Medium / Low	▪Nil / Low
Key Features	▪Offer single or shared accommodation, 24/7 nursing care, food, laundry and daily living support	▪Offer common facilities, village manager, home maintenance, emergency on-site assistance	▪Community style living and facilities with significant level of autonomy and independence
Regulatory Framework	▪Aged Care Act 1997 (Amendments to Act came into effect in 2007 and 2014). Industry is highly regulated to protect the residents rights and minimum care standards	▪Retirement Villages Act (State and Territory based Legislation)	▪Rental Tenancy Act (State and Territory based Legislation)
			▪Caravan Parks & Manufactured Homes Act (State and Territory based Legislation)
			▪Local Government Act (Local Councils)

Return considerations across Seniors Living spectrum

"Borrow to Build" - Considerations			
Development Considerations	Aged Care	Retirement Villages	Manufactured Home Estates
Typical Cost Details	Per Bed	Per ILU	Per Dwelling
Land Cost	Metro - \$80k to \$120k Regional - \$50k to \$80k Rural - \$20k to \$40k	Metro - \$70k to \$100k Regional - \$40k to \$60k Rural - \$10k to \$30k	Metro - \$60 to \$90k Regional - \$40k to \$60k Rural - \$10k to \$30k
Construction + Soft Costs	Single Level: \$150k to \$200k Vertical Construction: \$250k+	High Specification Build: \$2.5k to \$3.0k per sqm Low Specification Build: \$1.5k to \$2.0k per sqm	High Specification Build: \$1.5k to \$2.0k per sqm Low Specification Build: \$1.0k to \$1.4k per sqm
Total Cost	Ranges from \$250k to \$350k	Subject to ILU Size and Location - \$250k to \$450k	Subject to Dwellings Size and Location - \$160k to \$240k

Valuation Analysis	Aged Care	Retirement Villages	Manufactured Home Estates
Going Concern	Core Valuation	DMF Valuation	Going Concern Valuation
Recurring Earnings	\$15k to \$20k	Subject to a combination of: - DMF / CG Contract Terms - Property Price Growth - Maturity of Residents / Village - Average Length of Stay	~\$150 - \$180 pw per Dwelling ~\$7.5k to \$9.0k p.a.
Capitalisation Rate	Range - 13% to 17%	Range - 15% to 20%	Range - 8% to 10%
Core Value	Valuation Range - \$90k to \$180k per bed	Valuation Range: \$60k to \$120k per ILU	Valuation Range: \$70k to \$90k per Dwelling
Development Valuation (Target Returns)	15% to 20%	10% to 20%	25% to 30%

Geared return of equity

"Borrow to Build" – Considerations			
Return on Capital / Equity	Aged Care	Retirement Villages	Manufactured Home Estates
Return on Capital	Development Return is a combination of Core Value plus Development Return on RADs - generally ranges between 15% to 25%	Development Return is a combination of DMF Value plus Development Return on ILUs - Development Returns generally ranges between 10% to 20% - DMF Value Return generally ranges between 5% to 10%	Development Return is a combination of Going Concern Value plus Development Return on Dwellings - Development Returns generally ranges between 20% to 30% - Going Concern Return generally ranges between 5% to 8%
Senior Bank Funding			
Senior Bank Funding	Senior Banks generally lend up to: - 60% to 70% of NP Core Value - 50% to 60% of NPV of RAD	Senior Banks generally lend up to: - 50% of DMF Value (subject to cash servicing) - 65% of NPV of ingoing Contributions	Senior Banks generally lend up to: - 60% to 70% of Going Concern Value (subject to cash servicing) - 65% of NPV of Gross Realisation Value

Return on Capital / Equity	Aged Care (100 beds)	Retirement Villages (100 ILUs)	Manufactured Home Estates (100 dwellings)
Total Cost (Land + Construction + Community Facility & Civils)	\$30.00	\$35.00	\$30.00
Gross Realisation Value	\$28.00	\$38.00	\$30.00
Going Concern Valuation	\$12.00	\$8.00	\$9.00
Total Return	33%	31%	30%
Senior Bank Capital	\$24.00	\$28.00	\$24.00
Geared Return	167%	157%	150%

In summary...

Market Themes

- Care models and delivery of care are changing
- Efficiency is critical, funding mix is changing from government led to consumer driven
- There will be new winners
- Uberisation of care delivery
- Life time value of providing care and accommodation

Capital Themes

- Increased liquidity and lower cost of capital
- Operators need to demonstrate capability in execution of greenfield, regulatory compliance and meeting consumer expectations (both product and service)

Consumer Demographic Themes

- Strong demographic tail wind
- Care funding underpinned by government
- Increasing consumer demand of accommodation which is purpose built for ageing in place (lifestyle, access to community services, assisted living, complex health care and end of life care)

THANK YOU

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