ACSA FINANCE FORUM

A BANKER'S PERSPECTIVE ON THE AGED CARE AND RETIREMENT LIVING SECTORS

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ANZ HEALTHCARE: OUR BACKGROUND

ANZ provides c$6b in debt to Australian Healthcare operators:

> 40% to the retirement living, community and aged care sectors
> 25% to the hospital sector
> 35% to specialist health providers (diagnostic, medicos, dental)

ANZ's aged care business has experienced significant growth:

> 20% CAGR over last decade

ANZ provides:

> Acquisition finance
> Development finance
> Asset backed and cash flow lending

ANZ finances many of Australia's leading healthcare operators

ANZ supports a number of the Healthcare sector's leading industry bodies:

> ACSA, LASA, Property council (ex RVA)

ANZ Healthcare is a national team of specialist Corporate Bankers. We service the entire Healthcare sector, including retirement living, community care, aged care, hospitals and ancillary medical services.

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CONTEXT: AGED CARE AND RETIREMENT LIVING SECTORS

Industry Stock Take:

Retirement Living:

> Public markets appear tainted… Institutional investors burnt post-GFC hesitant to invest further capital.

> Strategy of the big property players is a “work in progress”

> Limited new projects except at the affordable end of market.

… Although we are aware of some excellent Boutique developments (VRG’s Yeronga & Coorparoo, Greengate’s St Peter’s Green,)…

> DMF cash flows are low yielding and volatile…resales slow… BUT recent signs are very positive (Retire Australia, Aveo)

…There are some exceptional mature villages (Brighton Classic Residences, Glen Group, CHC’s St Louis Estate)…

…However, there is deepening obsolescence in many older villages….

Aged Care:

> “Investment strike” pending outcome of reform is over.

- Operators are looking to build / refurbish. Acquisition appetite strong.
- Private equity has entered the industry.
- High net worth families seeking to invest.
- Japara float at 12x multiple.
- Reports that Regis, Allity and Estia are soon to float.

> For top quartile operators operational and bond cash flows are sound and have low volatility.

…For the last decade ANZ has been the only bank with consistent appetite in this sector…

Bank risk appetite is dependent on:

> **Track Record:**

- Qualitative assessment industry operator and assets :
  - Operator performance (speed of uptake: ACFI, Dementia supplement, flexible rostering),
  - Market perception,
  - Management reputation / depth,
  - History
- Quantitative assessment of industry, operator and assets:
  - Historic financial performance
  - Portfolio quality / size
  - Age of stock
  - Development / rebuild track record

> **Outlook:**

- Financial projections
- Demand/demographic projections
- Investor appetite
- Stock life cycle/ redevelopment plans

The following pages consider the quantitative and qualitative position of the aged care and retirement living sectors

RETIREMENT LIVING

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RETIREMENT LIVING: NEGATIVE PERCEPTION (QUALITATIVE ASSESSMENT)

Warning issued on Becton housing, retirement projects

forces Australian reti

Liquidator sues Babcock, auditor

FKP loses $350m on reti ment homes writed wn

stake in Metlife 7.7%, $270m pay debt

of Scotland

Prime directors to face court grilling

Receivers fall on Prime Trust as Suncorp pulls pin on villages

$190m RVG debt

Prime thr at Lend Le

breaches by Retirement roup

lks fall

Prime Trust hits the wall with 10 villag placed in receivership by banks.

Prime creditors to vote on liquidation

over Picture Dims

Sale or spin-off for FKP retiremen ges

Becton in rec

Goldman exits NZ retirement villages Metlifecare

VIC development

Sell-o

Stockland to sell FKP stake for $70m

BBC Lo

Zig and Peter Inge sel

Paying a high price to retire

RETIREMENT LIVING: FINANCIAL PERFORMANCE (QUANTITATIVE ASSESSMENT)

Developments:

> Greenfield activity barely has a heartbeat, except:

- Affordable RV's and demountable homes.
- RVs within Stockland's master plan estates.
- Boutique developments.
- Ryman $55m + land investment (Wheelers Hill).

DMF Rollovers:

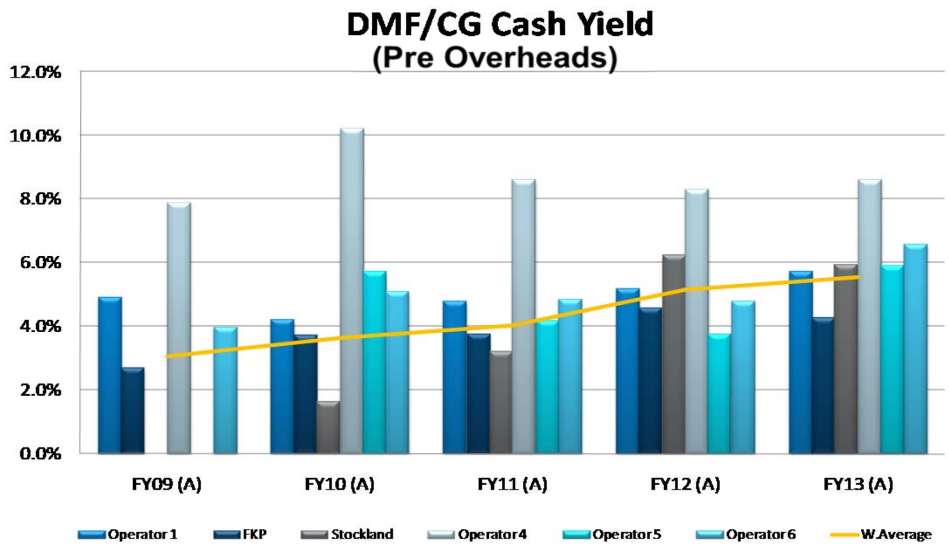
> Recent history of very low gross cash yields - average 4%....

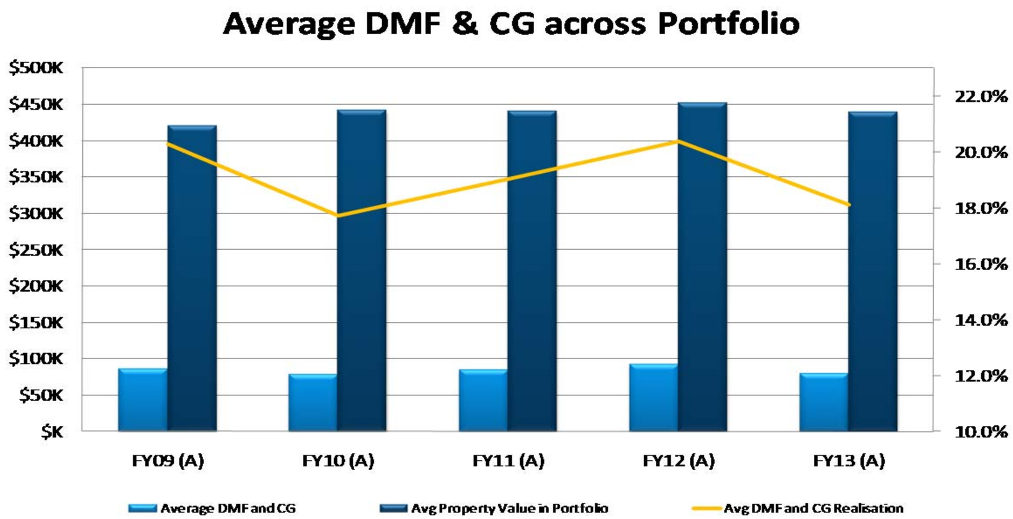
> Net cash yield (allowing for capex and corporate overheads) circa 1-3% lower than gross yield.

> In the period FY09 – FY13 net yields for DMF assets < 4%.

> Uncertainty of cash generation has made funding mature portfolios challenging.

..this has resulted in a decline in valuations since 2009..





SOURCE: Data collected from 6 operators who collectively own c23,000 units (c20% of market)

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RETIREMENT LIVING: VILLAGE VALUATIONS

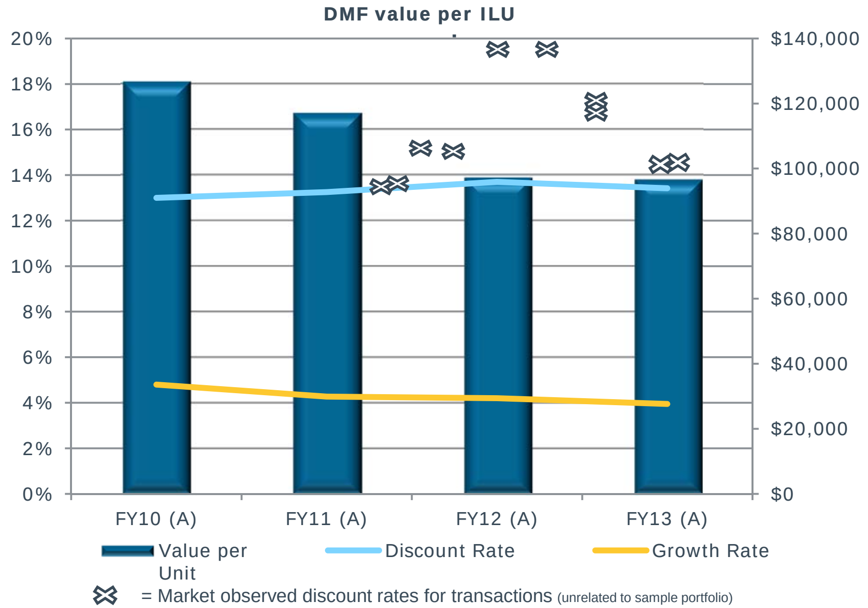
Valuation Trends

> RV valuations have seen a slow decline post GFC.
- Discount rates slightly up.
- Property Growth Rates slightly down.

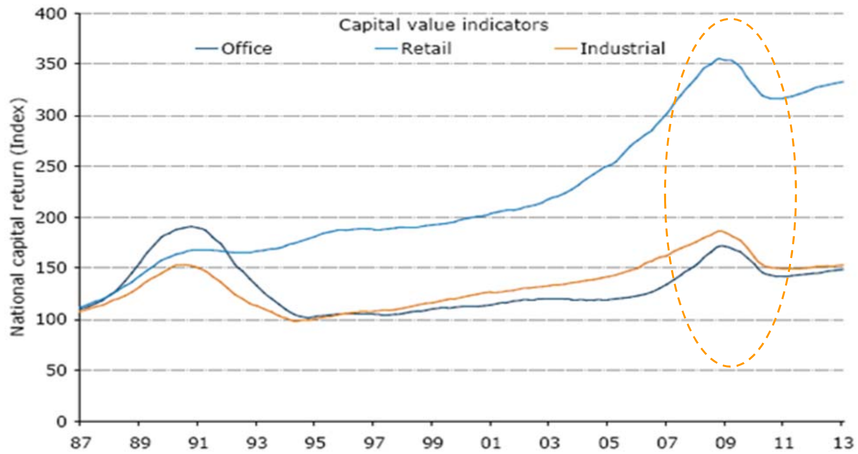
> Some exceptions have been seen, eg FKP/Aveo in FY2012 with a c$225m write-down (24% of total net asset value on c5,000 ILUs). The basis of which was:
- Discount Rate 12.5% (stable).
- Increased ALOS from 9 to 10 years.
- Property price growth assumption reduced from 5% to 3-4.5% in Yrs 1-5 and 5% thereafter.

> Transactions (although sparse) have generally been at higher discount rates.
- This may reflect asset quality, location, etc.

> This is in stack contrast to commercial property.
- Large decline in values immediately post GFC.



Source: ANZ analysis. Sample size c3,000 ILUs



Sources: IPD, Property Council of Australia-ANZ, RBA

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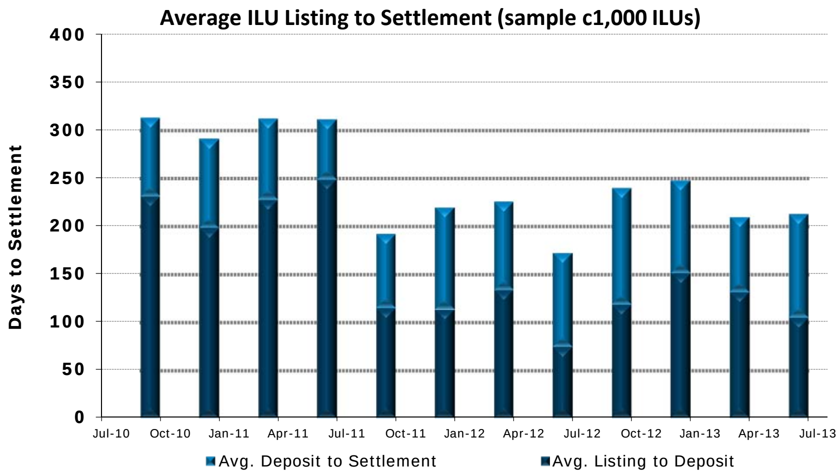
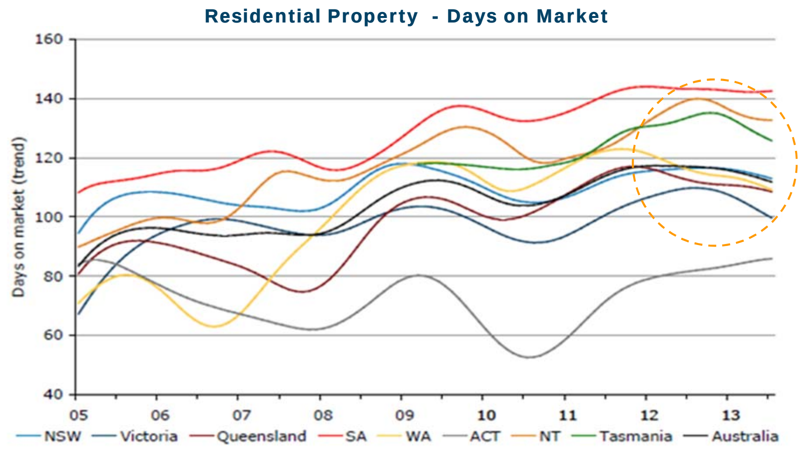
RETIREMENT LIVING: OTHER DRIVERS

Settlements Cycle



Source: ANZ analysis



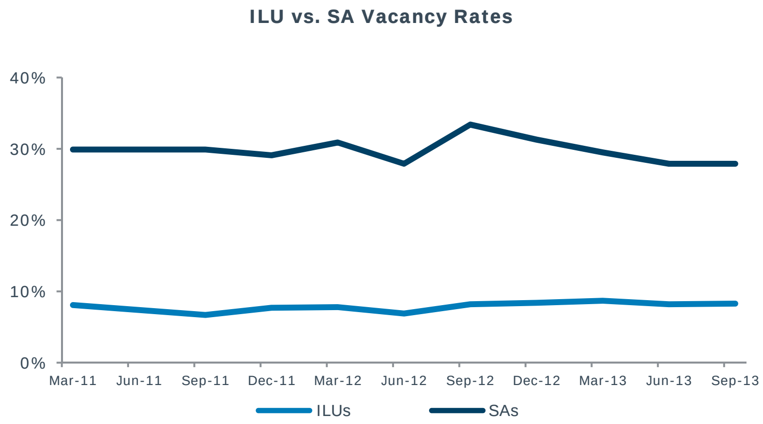
Source: ABS, RBA, RP Data, ANZ

- > Time from listing to settlement lengthened to c300 days in FY2011, in-line with the residential market.
- > This has now shortened to c200 days, with a noticeable reduction in time from Listing to Deposit/Contract.

Stock Availability: Is the tightening of the Settlements Cycle leading to a shortage of quality available stock?

Drag from Serviced Apartments: Historically higher occupancy, but will increased home care packages make them more attractive?

Affordability: Sales have continued to be strong in the Sub$300k segment…equity release the key driver.



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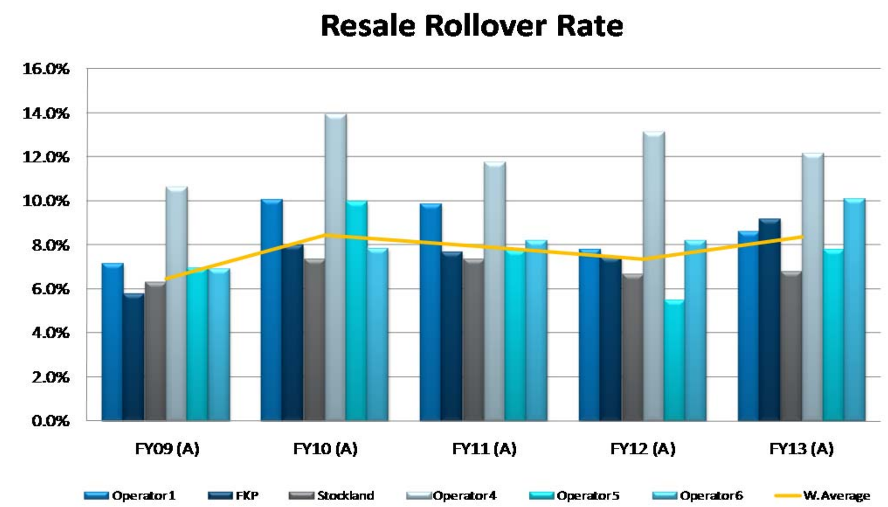
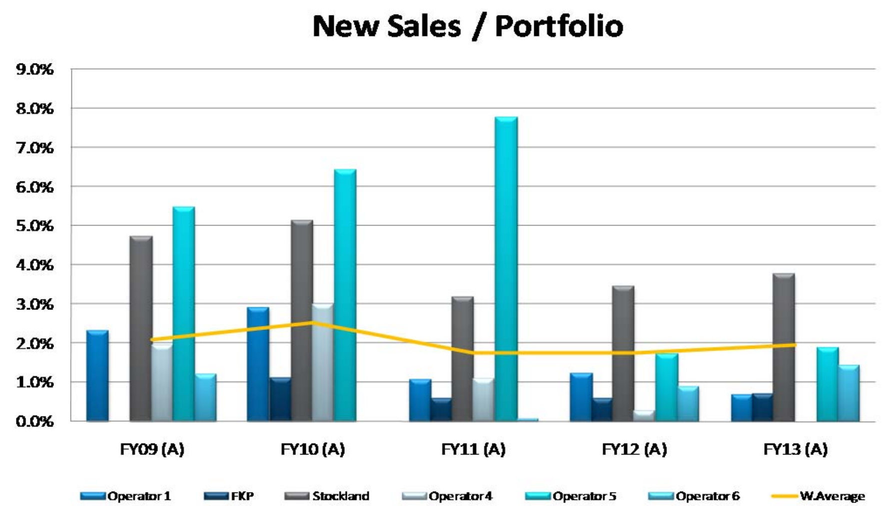
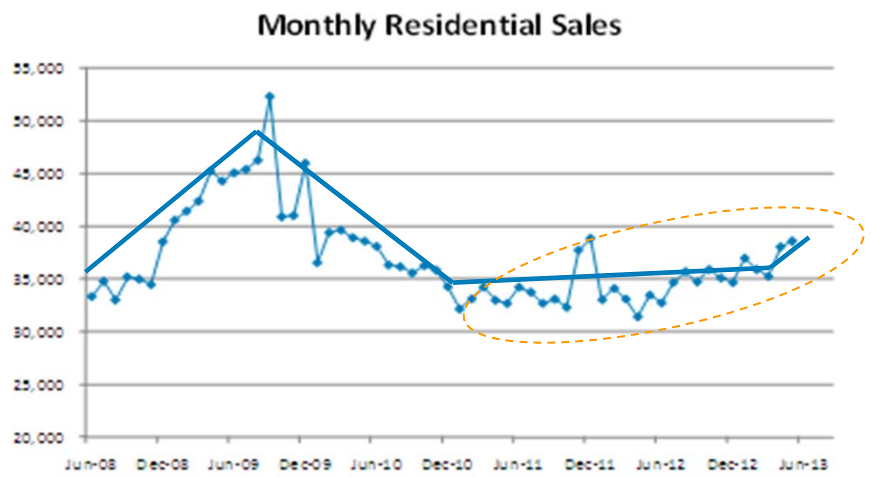
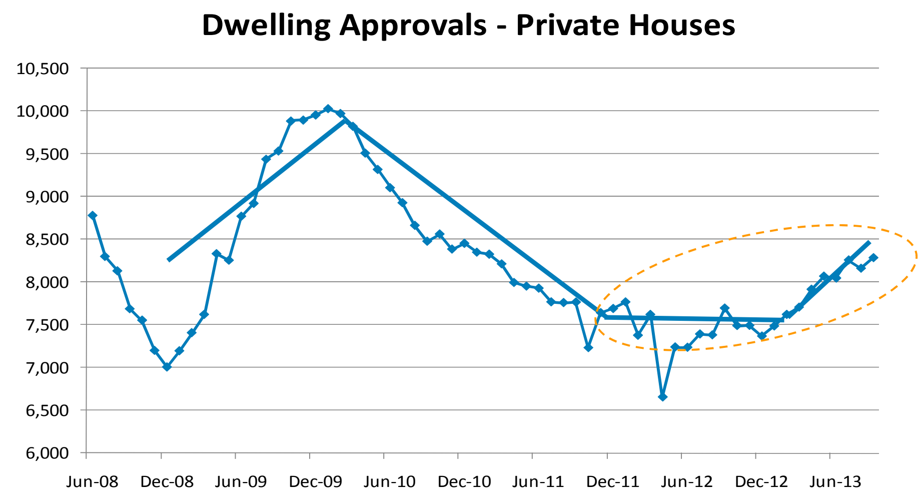
RETIREMENT LIVING: IS THE TIDE IS TURNING?









SOURCE: Data collected from 6 operators who collectively own c23,000 units (c20% of market)

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RETIREMENT LIVING: A COMPARISON - NZ THEN AND NOW

Then… 2008 – 2010…

Retirement village firm takes hit

Metlifecare wipes interim dividend
loss

Retirement villa
dreams down drain

Ryman Healthcare profits down 9pc to $66m

Metlifeca
property writedown
loss on $100m

Metlifecare first-half profit slides 69% as merger gains wash through

Metlifecare loss more than doubles

….and now… (2011 – 2014)…

Ryman profit up 13pc - tops $100m

Record sales boost Summerset profit

's profit justifies price

Metlifecare shares surge 7.9 per cent

Summerset profits soar 46pc

by Metlifecare

Record first-half profit for Ryman

NZ shares

Metlifecare shares surge 7.9 per cent

Summerset annual profit more than doubles to record

Summerset doubles profit

RETIREMENT LIVING: RYMAN HEALTHCARE A NZ SUCCESS STORY

	2009	2010	2011	2012	2013	CAGR
Financial						
Underlying Profit	53.0	61.4	72.1	84.1	100.2	17%
Net Operating Cash flows	114.2	149.4	133.1	169.2	222.2	18%
Dividend per Share	5.3	6.1	7.2	8.4	10.0	18%
Total RV Sales (new & rollover)	597	631	699	780	985	
New builds (Year on Year Growth)						
Aged Care Beds	125	155	228	322	226	
RV Units	278	279	343	388	517	
Total Portfolio						
Aged Care Beds	1,519	1,674	1,852	2,174	2,400	12%
RV Units	2,264	2,543	2,886	3,274	3,791	14%
Land Bank (# AC Beds & ILUs)	1,790	1,897	2,141	2,229	2,402	

Indicative Contribution to Profit (%)	
Care Fees	20%
RV Income	50%
New Sales (Development)	30%

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AGED CARE: CONTRAST WITH RETIREMENT LIVING (QUANTITATIVE ASSESSMENT)

Operational Yield

	Top Quartile	Next Top	Next Bottom	Bottom	Average
For Profit Operators					
EBITDA per bed	$21,786	$10,599	$5,321	-$2,260	$13,121
No of providers	164	94	75	59	392
All Operators					
No of providers	264	264	263	263	1054
For Profits as a %	*62%%*	*35%*	*29%*	*22%*	*37%*

SOURCE: ACFA presentation 06/12/13

New Build Feasibility

Av cost to build / bed	$250k
Av accom bond collected	$250k
- % of beds bonded	40%
Build cost offset by bonds	$100k
Net investment	$150k
ROI (ungeared)	14.5%
ROI (geared*)	23.0%

* Geared to 50% LVR assuming 6% cost of debt (calc = $21,706k EBITDA / bed - $4,500k interest on $75,000 debt = $17,286 / $75,000 investment)

Note on Sector Investment / Consolidation

….Only 164 out of total of 1054 operators (being privates generating top quartile returns) are likely to be meaningful investors in the sector….

Caveat : 5+ years to build/ ramp up so target returns achieved.

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AGED CARE: CONTRAST WITH RETIREMENT LIVING

Regulatory reform of the aged care sector: for the vast majority of the industry the LLLB reforms should have a positive impact…

POSITIVES	IMPACT
Removal of cap on how much a self funded HC resi can contribute to their accommodation.	LARGE
Additional funding for supported residents in new or significantly refurbished facilities	MODERATE
Operators can charge residents additional fees for hotel and lifestyle services.	MODERATE
With resi consent operators can deduct fees from accom bonds	MODERATE
25% govt claw back of extra service fee removed.	MODERATE
New dementia supplement.	LARGE
NEUTRAL	
Increase in community care places may impact occupancy.	SMALL
Imposition of bond threshold ($550,000).	SMALL
Application of resident co-contribution caps may have unintended consequences.	SMALL
NEGATIVES	
Revised means test biased to favour periodic payment rather than lump sum.	SMALL / MODERATE
Loss of ability to deduct retentions from accommodation bonds.	MODERATE

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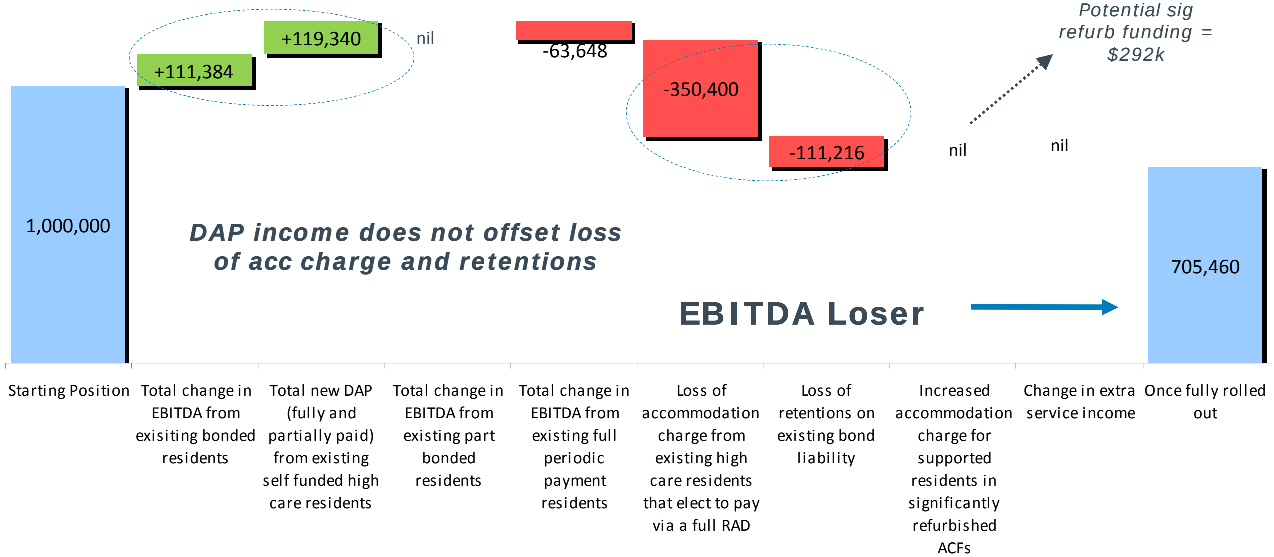
AGED CARE REFORM: LIVING LONGER LIVING BETTER
- ANZ MODELLING:

Client Profile Example

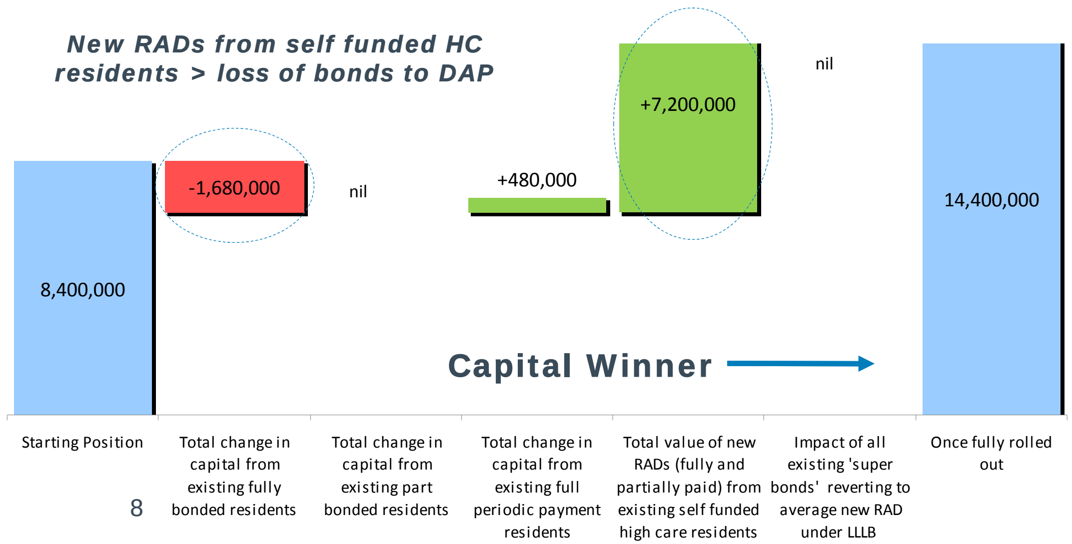
	Today	Future
Total no of beds	100	100
No of ES places	Nil	Nil
Sig Refurb funding	N/A	NO
EBITDA/bed	10,000	10,000
ES fee/day	Nil	Nil
No of Bonds/RADs	28	48
No of PP/DAPs	2	12
No of acc charge	30	0
No of supported	40	40
Bond / RAD Value	300,000	300,000

...this form of client is most prevalent in the NFP market ......

EBITDA (p.a.) impact once all residents turnover



Capital impact once all residents turnover



AGED CARE REFORM: LIVING LONGER LIVING BETTER
- WINNERS & LOSERS

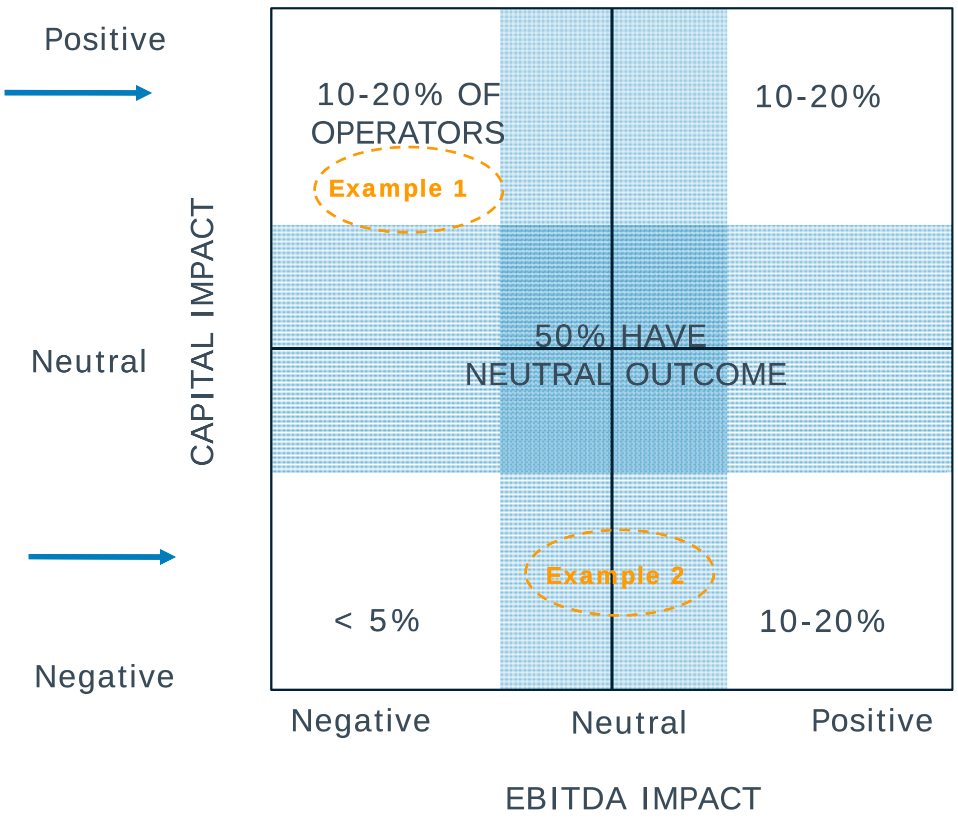
Industry Outcomes
(Illustrative)

Capital Winners

- Majority HC facilities with large % of self funded retirees
- Offset by loss of accommodation charge

Outright Losers

- Heavily bonded ES-style facilities
- Loss of retentions and super-bonds



Windfall Winners

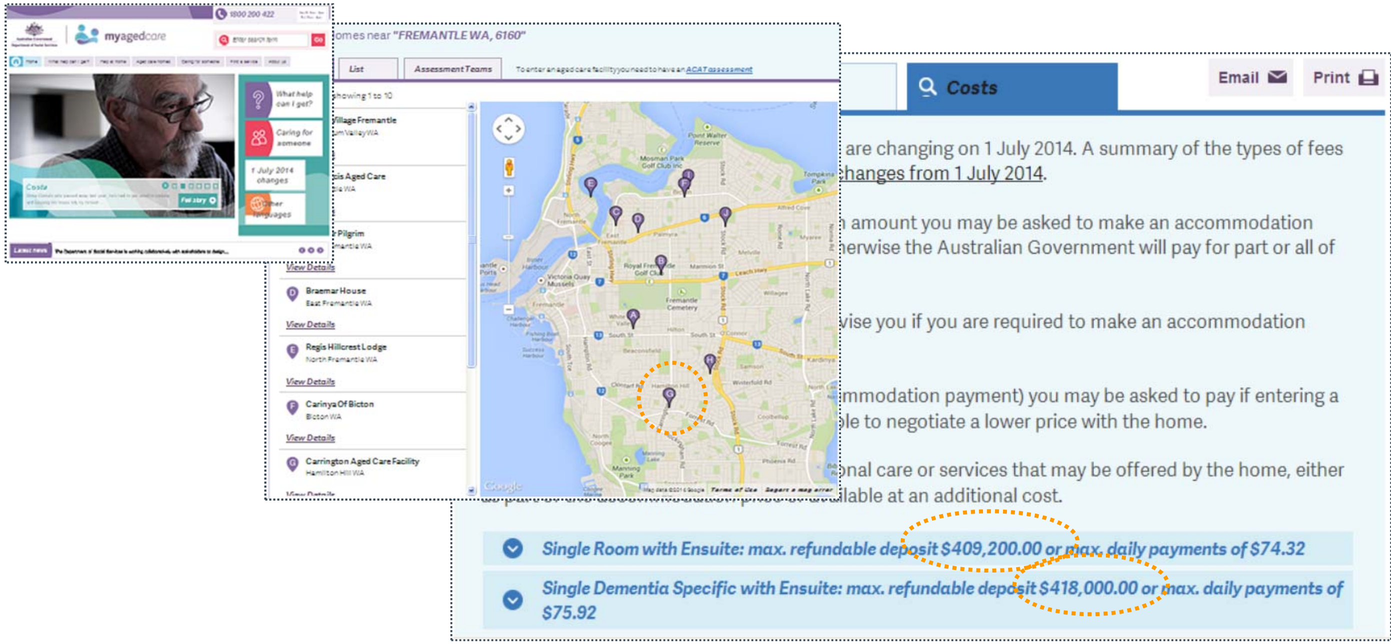
- High care operators with little/no bonds and potential to use new RADs to redevelop and generate significant refurbishment funding

Capital Losers

- Highly bonded mixed care operators, with a substantial proportion of current earnings from retentions

Table sourced from Ansell Strategic.

…pricing transparency is here…



…competition is heating up…

Archer Capital's Allity buys into $150m aged care portfolio

Regis Aged Care acquires Playford Village

Arcare acquires 2 Aged Care facilities in QLD

BlueCross' presence grows with the acquisition of Chelsea Manor

RESIDENTIAL AGED CARE • BLUECROSS COMMUNITY & RESIDENTIAL SERVICES • 4 MONTHS AGO

Super Bupa buys Innovative Care as part of long range aged care vision

… Japara's trading multiple implies that they will grow their bed stock by 5 – 10% p.a.…

Quadrant circles care homes

Japara Healthcare surges 35pc on ASX debut

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SUMMARY

> Quantative and qualitative factors influence bank appetite….

> Qualitative:
  > Retirement Living: post-GFC a number of nasty headlines…

  …BUT the tide appears to be turning? (Improved residential housing market)

  …Will the NZ experience be replicated here?

  > Aged Care: positive headlines, a lot of interest in the sector.

> Quantitative:
  > Cash flow drives value.
  > Banks lend on cash flow… so cash flow drives availability of debt….

  > Retirement Living:
  - DMF cash flow has been low yielding and volatile
  - Development cash flow should be higher yielding but high market risk (presales to mitigate).
  - Question: how can yield be increased and volatility reduced to offset risk?
    - Ageing in place model?

  > Aged Care:
  - Cash flow from operations is sound reliable yield.
  - Accommodation bonds are available to reduce net investment, and enhance ROI.

> ***Conclusion:***
  > ***Aged Care: strong bank and investor appetite.***
  > ***Retirement Living: bank and investor appetite moderate but highly selective.***
  > ***Quality financial modelling: A good bank will complete its own modelling of the impact LLLB may have on your business… do you know what these look like?***
  > ***Clear strategy : predator, prey or niche operator? Where are you on the quadrant?***

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