ACSA FINANCE FORUM

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

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JUNE 2014
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)
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
Auditor warns of breaches by Retirement Villages Group

Sale or spin-off for FKP retirement villages

FKP loses $350m on retirement homes write-off

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

Receivers pull pin on villages

Prime Trust seeks $70m from Lend Lease

Liquidator sues Babcock, auditor

Paying a high price to retire

Retirement Living: Negative Perception (Qualitative 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...
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.
RETIREMENT LIVING: OTHER DRIVERS

Settlements Cycle

- 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.
RETIREMENT LIVING: IS THE TIDE IS TURNING?

Resale Rollover Rate

New Sales / Portfolio

Monthly Residential Sales

Dwelling Approvals - Private Houses

SOURCE: Data collected from 6 operators who collectively own c23,000 units (c20% of market)
Metlifecare wipes interim dividend after $60m loss

Metlifecare loss more than doubles

Metlifecare shares surge 7.9 per cent

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

Ryman Healthcare profits down 9pc to $66m

Ryman Healthcare property writedown

Ryman profit up 13pc - tops $100m

Record sales boost Summerset profit

Summerset doubles profit

Record first-half profit for Ryman

NZ share colony doubles to record

Summerset annual profit more than doubles to record

Retirement village firm takes hit
dreams down drain
## RETIREMENT LIVING: RYMAN HEALTHCARE A NZ SUCCESS STORY

<table>
<thead>
<tr>
<th>Financial</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying Profit</td>
<td>53.0</td>
<td>61.4</td>
<td>72.1</td>
<td>84.1</td>
<td>100.2</td>
<td>17%</td>
</tr>
<tr>
<td>Net Operating Cash flows</td>
<td>114.2</td>
<td>149.4</td>
<td>133.1</td>
<td>169.2</td>
<td>222.2</td>
<td>18%</td>
</tr>
<tr>
<td>Dividend per Share</td>
<td>5.3</td>
<td>6.1</td>
<td>7.2</td>
<td>8.4</td>
<td>10.0</td>
<td>18%</td>
</tr>
<tr>
<td>Total RV Sales (new &amp; rollover)</td>
<td>597</td>
<td>631</td>
<td>699</td>
<td>780</td>
<td>985</td>
<td>18%</td>
</tr>
</tbody>
</table>

### Total Portfolio

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aged Care Beds</td>
<td>1,519</td>
<td>1,674</td>
<td>1,852</td>
<td>2,174</td>
<td>2,400</td>
<td>12%</td>
</tr>
<tr>
<td>RV Units</td>
<td>2,264</td>
<td>2,543</td>
<td>2,886</td>
<td>3,274</td>
<td>3,791</td>
<td>14%</td>
</tr>
<tr>
<td>Land Bank (# AC Beds &amp; ILUs)</td>
<td>1,790</td>
<td>1,897</td>
<td>2,141</td>
<td>2,229</td>
<td>2,402</td>
<td></td>
</tr>
</tbody>
</table>

### Indicative Contribution to Profit (%)

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<tr>
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</thead>
<tbody>
<tr>
<td>Care Fees</td>
<td>20%</td>
</tr>
<tr>
<td>RV Income</td>
<td>50%</td>
</tr>
<tr>
<td>New Sales (Development)</td>
<td>30%</td>
</tr>
</tbody>
</table>
AGED CARE
Archer Capital Buys Lend Lease’s Aged Care Business

Japara planning to list on ASX in 2014

Tycoon Goh Geok Khim takes stake in Domain

KKR interested in Principal Group

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

Quadrant Acquires Estia Health

Regis Aged Care Continues to Grow Through Acquisition
AGED CARE: CONTRAST WITH RETIREMENT LIVING (QUANTITATIVE ASSESSMENT)

Operational Yield

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

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.

New Build Feasibility

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

* 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)

SOURCE: ACFA presentation 06/12/13
**Regulatory reform of the aged care sector: for the vast majority of the industry the LLLB reforms should have a positive impact...**

<table>
<thead>
<tr>
<th>POSITIVES</th>
<th>IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Removal of cap on how much a self funded HC resi can contribute to their accommodation.</td>
<td>LARGE</td>
</tr>
<tr>
<td>Additional funding for supported residents in new or significantly refurbished facilities</td>
<td>MODERATE</td>
</tr>
<tr>
<td>Operators can charge residents additional fees for hotel and lifestyle services.</td>
<td>MODERATE</td>
</tr>
<tr>
<td>With resi consent operators can deduct fees from accom bonds</td>
<td>MODERATE</td>
</tr>
<tr>
<td>25% govt claw back of extra service fee removed.</td>
<td>MODERATE</td>
</tr>
<tr>
<td>New dementia supplement.</td>
<td>LARGE</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NEUTRAL</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in community care places may impact occupancy.</td>
<td>SMALL</td>
</tr>
<tr>
<td>Imposition of bond threshold ($550,000).</td>
<td>SMALL</td>
</tr>
<tr>
<td>Application of resident co-contribution caps may have unintended consequences.</td>
<td>SMALL</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NEGATIVES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revised means test biased to favour periodic payment rather than lump sum.</td>
<td>SMALL / MODERATE</td>
</tr>
<tr>
<td>Loss of ability to deduct retentions from accommodation bonds.</td>
<td>MODERATE</td>
</tr>
</tbody>
</table>
Client Profile Example

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

...this form of client is most prevalent in the NFP market ......
## Industry Outcomes
(Illustrative)

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>Neutral</td>
</tr>
<tr>
<td>Positive</td>
<td>Neutral</td>
</tr>
<tr>
<td>Negative</td>
<td>Negative</td>
</tr>
</tbody>
</table>

### 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

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Table sourced from Ansell Strategic.
...pricing transparency is here...

...competition is heating up...

... Japara’s trading multiple implies that they will grow their bed stock by 5 – 10% p.a....
> Quantitative 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?