

Chairman and CEO's Review



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Dear Shareholders,

On behalf of the Directors, we are pleased to present the 2018 Annual Report for Japara Healthcare Limited.

Our residents

At Japara we continued to provide excellent care and services to our residents during the year across our extensive network of homes.

We also welcomed over 260 new residents following the opening of our new home, Riverside Views, in Tasmania, completion of significant refurbishment projects and the acquisition of the Riviera Health portfolio in New South Wales on 1 April 2018.

Japara believes deeply in enhancing the health and wellbeing, and respecting the individuality of every resident. This philosophy is central to our care model. We continue to invest in our homes and our people and maintained our 100% accreditation record as an approved provider of residential aged care services during the year. Nineteen of our homes were successfully re-accredited and we continue to have registered nurses on every shift at every one of our homes.

Our industry

The fundamentals underpinning strong demand for aged care services in Australia continue. As a growing number of people are living longer, and healthcare continues to improve, people are increasingly dealing with chronic and complex health conditions. These dynamics are expected to drive further demand for around-the-clock clinical care, specialised dementia care and assisted living services that only residential aged care can provide.

Last year's Chairman's Review noted that there had been a significant level of public scrutiny of the industry with numerous Government reviews being undertaken examining standards of care, regulatory processes and operating practices. While the findings from these and other reviews are still to be worked through by Government, at Japara we continue to plan and develop our business to be a leading provider of aged care services across a continuum of care.

Delivering on growth

Excellent progress continued to be made on our development program during the year with two projects successfully delivered and a further four projects nearing completion. We currently have five brownfield and 12 greenfield projects in progress which are scheduled to deliver more than 1,200 net new places by the end of FY2022. Our significant refurbishment program across many of our existing homes is also delivering upgraded facilities to benefit our residents.

Additionally, we successfully implemented on our strategy to expand our portfolio in the Sydney region with the acquisition of the Riviera Health portfolio comprising four operating homes, surplus bed licences and vacant land. This investment was consistent with our strategy to grow through selective acquisitions that meet our strict investment criteria and provide identifiable improvement opportunities. The homes were acquired at exceptional value as part of a portfolio which also includes a near completed replacement home in Brighton-Le-Sands, 297 surplus bed licenses and other real estate assets. The homes were quickly and seamlessly integrated into Japara's care model and two of the homes were fully re-accredited within three weeks of acquisition which is testament to our respected high care model. In FY2018 total operational places at Japara increased by 6% to 4,069 from the completion of the developments program and the Riviera Health portfolio acquisition.

Progress on initiatives

Over 90% of Japara residents have high clinical care needs and a majority are living with dementia. Dementia is now understood to be the single biggest health issue of the 21st century. Japara is responding by investing even further in dementia care through the roll-out of our specialist dementia care model across our homes. We are pleased to report that successful resident outcomes are being achieved delivering greater quality of life for our residents living with advanced dementia.

**Personal care,
respect and
individuality
underscores
everything
that we do.**



Chairman and CEO's Review continued

Our new technology strategy continues to be implemented. This year we advanced the roll-out of Wi-Fi and associated infrastructure across all our homes. This program has been delivered ahead of schedule and provides our residents and visitors with access to Wi-Fi from anywhere within our homes. We plan to leverage this platform in the future for the delivery of care and other services for the benefit of our residents. Other technology initiatives were advanced during the year including completion of the roll-out of our electronic workforce management system and upgrades to our nurse call and other operational support systems. At Japara, our nurse call response time for assisting residents with immediate needs is ahead of the industry average.

Financial performance

Japara delivered earnings before interest, tax, depreciation and amortisation (EBITDA) of \$50.7 million in FY2018 in a challenging operating environment.

Revenue of \$373.2 million was up 3.0% on last year while net profit after tax (NPAT) was \$23.3 million, a decrease of \$6.4 million.

Revenue improvement was achieved during the year through contributions from a greenfield and four brownfield developments completed in the prior year and the Riviera Health homes acquired on 1 April 2018. This was more than offset by the impact of wage rate increases (particularly in the absence of indexation on Federal Government care funding (ACFI)) and occupancy pressures associated with the unusually severe influenza outbreak experienced during the first half of the year. Occupancy has since recovered after this abnormal event to around historical levels albeit at a slower rate than expected. Average occupancy for FY2018 was 93.2% (FY2017: 94.6%) with a stronger second half averaging 94.0%.

A net gain from non-recurring items of \$3.3 million was \$2.7 million less than in FY2017.

NPAT was lower for the year due to the overall decline in earnings and an increase in depreciation.

Total dividends of 7.75 cents per share were determined for the year (11.25 cents per share last year), which includes a 3.75 cents per share final dividend franked to the maximum extent of 50% and payable on 30 October 2018.

Our stated dividend policy is to pay full year dividends of up to 100% of net profit after tax, franked to the maximum extent possible having regard to available franking credits. The dividend payout for the year is 88% and was determined having regard to retaining non-recurring (non-cash) gains and the Company's current significant investment in growth of the business.

Well positioned for future growth

Japara has a sound, diversified growth strategy underpinned by a focus on high quality resident care and services. Its extensive developments program is supported by a strong balance sheet and cash flows.

Net operating cash flows of \$35.5 million plus net cash inflows from Refundable Accommodation Deposits (RADs) of \$41.6 million were delivered during FY2018. Net bank debt was \$116.3 million at 30 June 2018, of which \$30.3 million is considered core net debt and \$86.0 million is development debt. We have available liquidity of circa \$94.0 million and expect development debt to be repaid from RAD inflows received from new residents entering our new or re-developed homes once completed.

Outlook

Looking ahead, Japara expects FY2019 EBITDA to be 5% to 10% up on FY2018, subject to no material changes in market or regulatory conditions, as operational initiatives gain further traction, occupancy continues to normalise, the Riviera Health portfolio acquisition and recently completed developments contribute a full year of earnings and ACFI indexation recommences.

Earnings are projected to be stronger in the second half of FY2019 due to the timing of completed developments and operational initiatives.

Japara will also focus on the continued delivery of its greenfield and brownfield development program (comprising over 300 net new places to be opened in FY2019) and its significant refurbishment program (with the completion of eight additional refurbished homes in FY2019).

Thank you

We would like to acknowledge and thank our exceptional team of over 5,000 nurses, carers and other support staff for their on-going dedication and commitment to our valued residents and Japara. We are proud to support and partner with our local communities by providing employment and other growth opportunities every year.

We would also like to thank the management team and the Board for their efforts and contributions during the year.

Finally, we would like to thank you, our shareholders, for your on-going support of our Company and high quality residential aged care for Australians.



Linda Bardo Nicholls AO
Chairman
27 August 2018



Andrew Sudholz
CEO & Managing Director
27 August 2018

**Japara,
supporting
connection
with loved-
ones and the
community.**