



Chairman and CEO's review



Linda Bardo Nicholls AO
Chairman



Chris Price
CEO & Managing Director

Dear Shareholders,

On behalf of the Japara Healthcare Board of Directors, we are pleased to present our 2020 Annual Report. While this year has been a year of two halves, we have held fast to the Japara Vision to enrich every life we touch including over 4,000 residents as well as their families and representatives, and 6,000 dedicated staff across our 51 homes.

Throughout the year, Japara continued to provide the highest standard of resident centred care. We rostered Registered Nurses in all our homes 24 hours a day, and we spent over 100% of care revenue received from the Government and residents on costs associated with the provision of quality care and operating the business.

FY2020 review

The 2020 financial year began with the introduction of the new Aged Care Quality Standards. Japara was quick to implement these new higher standards as part of our commitment to robust clinical governance. The Board's Zero Harm Committee chaired by Clinical Professor and Board Member, Dr Leanne Rowe AM, oversees this important work. The Zero Harm Committee has also monitored the work of the Royal Commission into Aged Care Quality and Safety throughout the year including the recommendations of the interim report released in late 2019. Japara will address the relevant recommendations of the final report expected in February 2021.

Japara also implemented a number of workforce initiatives to enable our staff to provide the highest standard of care including leadership development programs, innovative digital learning platforms and human capital management systems.

Importantly during the first half of the year, Japara delivered on its aged care development program and senior living growth strategy. Robina Rise on the Gold Coast opened in July 2019, The Regent in Victoria opened in April 2020 and construction advanced on Newport in Victoria and Belrose in NSW for

opening in FY2021. Three significant brownfield extensions were completed at Brighton-Le-Sands, Kingston Gardens, and Mirboo North, and three sites were in advanced planning for senior living accommodation co-located with Japara's residential aged care homes.

At the close of the first half, Japara reported a 9.9% increase in revenue, \$33.4 million in net Refundable Accommodation Deposit (**RAD**) inflows, 200 net new resident places, above sector average occupancy of 92.6%, and EBITDA¹ up 10% on the 1H2019. An interim dividend was declared of 2 cents per share franked to 50%.

In late January 2020, Australia identified its first case of COVID-19 in a returning traveller but it was not until 11 March 2020 that the World Health Organisation declared a global pandemic. The pandemic has had a devastating impact on the whole aged care sector in Australia and around the world. At Japara our highest priority has been to keep our residents and staff safe, supported and well.

Throughout the pandemic, Japara's response has been informed by expert advice. Strict, early application of biosecurity measures at Japara helped minimise the impact of COVID-19 in our homes. Initial outbreak planning commenced in early February 2020 with preparedness audits for each home, simulation training to prepare for outbreaks and assured access to sufficient Personal Protective Equipment (**PPE**) and other essential supplies. From March 2020, infection control training, visitation restrictions, compulsory flu vaccination, frequent COVID-19 screening, increased cleaning rosters, regular updates to resident families and dedicated employee assistance programs were in place. Unfortunately, community transmission of the virus increased in Melbourne in July 2020, greatly affecting four of our homes including the residents and staff.

1. Earnings before interest, tax, depreciation, amortisation and impairment of non-current assets.

Chairman and CEO's review continued

In March 2020, Andrew Sudholz, Japara's Founder and longstanding CEO and Managing Director, announced his retirement to be present with a family member dealing with a serious health issue. Andrew is widely recognised as having grown Japara into one of Australia's leading aged care providers. Leadership was smoothly transitioned to Chris Price, Japara's Chief Financial Officer at that time, and Anthony Rice was appointed Chief Financial Officer and Chief Investment Officer. The Board and Management thank Andrew for his commitment and contribution over many years.

Alongside managing the daily urgent pressures associated with COVID-19, the Executive Leadership Team and the Board recognised that Japara also needed to rebuild a path to sustainable growth. This included simplifying the organisational structure at the support office while developing business improvement plans for each home recognising their unique features and communities served. This required a clear, company framework of standards and expectations, and a renewed focus on clinical governance. Employee numbers at support office were reduced, the debt structure was reviewed, and older non-core assets were sold to support investment in new developments and meet evolving resident expectations.

Japara reviewed its real estate portfolio and development pipeline with a focus on agility in construction timing and identifying under-served geographies. Construction has continued at both Newport in Victoria and Belrose in NSW and a brownfield development has recently been completed at Albury in NSW, with resident admissions expected from Q2 FY2021. No further developments will commence construction until the clinical and economic outlook becomes more certain. Japara maintains a development pipeline of 656 new places.

During FY2020, Japara added 261 net new operational places including the two new homes. New developments together with the refurbishment of existing homes contributed as expected, underpinned by solid greenfield and brownfield development occupancy. RAD cash flows remained resilient over the year with net inflows of \$53.9 million. Further RAD uplift is expected as occupancy in new homes and extensions ramp up. Occupancy moderated to 92.2% for the year, a level weaker than anticipated including due to COVID-19.

Direct costs incurred on sourcing PPE and infection control consumables was approximately \$1 million in the second half on top of additional wage costs for training, cleaning and staff to replace those in quarantine and isolation. Government grants were announced for a limited number of qualifying expenses. EBITDA¹ for the full year was \$32.9 million and following the non-cash impairment of non-current assets of \$291.9 million, as foreshadowed in May 2020, the business recorded a net loss after tax² of \$292.1 million. No final dividend will be paid for 2020.

1. EBITDA is a measure consisting of earnings before interest, tax, depreciation, amortisation and impairment of non-current assets.
2. Loss attributable to members of the Group.

Japara recognises the importance of maintaining a strong balance sheet while allowing for capital development expenditure. At 30 June 2020, Japara had \$345 million in committed bank debt facilities with cash and undrawn debt of \$154 million. This strength is particularly important as the announced indexation of 1.6% for the Aged Care Funding Instrument is below the Fair Work Commission's Annual Wage Review Decision adding 1.75% to the Aged Care Award. The residential aged care sector has operated under this 'negative jaws' for several years now and as reported by StewartBrown, the impact is taking its toll on the EBITDA, margins and solvency of many providers.

Outlook

The short-term outlook for aged care is challenging with a number of clinical, structural and funding uncertainties. It is anticipated these challenges will be tackled by the Federal Government following completion of the Royal Commission. Underlying longer-term fundamentals including an ageing population remain. Our focus continues to be on robust management of COVID-19 to ensure resident and staff wellbeing while building a path to sustainable growth. While cost and revenue implications remain uncertain in the short term due to the pandemic, we remain optimistic that underlying demand for residential aged care will persist for Australia's rapidly ageing population. We are confident our development pipeline is agile with well-located developments, and that our care model to enrich every life, every day is providing the highest standard of resident centred care.

Thank you

We would like to formally thank all our dedicated staff both those on the 'front line' of care and those supporting our homes in the background for their hard work and commitment in the face of unimagined events. We thank our executives who have rolled up their sleeves and done whatever job was required, whenever necessary, willingly and well. Most of all we thank our residents and their relatives for whom COVID-19 has been confronting and frightening, for their strength and support.

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Chairman
26 August 2020

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CEO & Managing Director
26 August 2020

