MARCH 2015

Growing with Age

Dealtracker for the Aged Care Sector

Growing with Age - Dealtracker for the Aged Care sector

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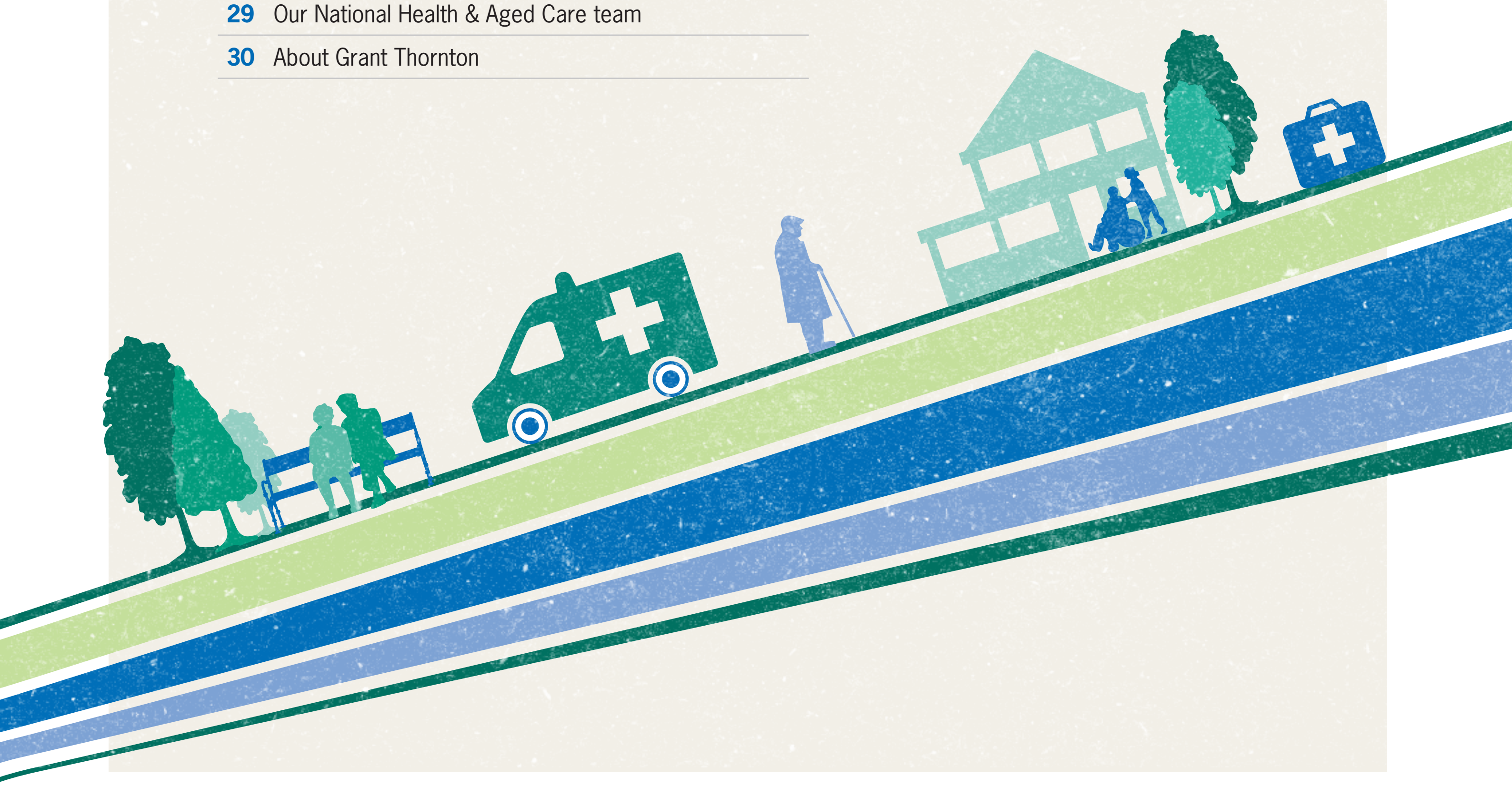


Summary of findings

In this Dealtracker publication for the Aged Care industry titled "Growing with Age", we have reviewed Mergers and Acquisition (M&A) and Initial Public Offering (IPO) activity in the Aged Care sector between 1 January 2008 and 31 March 2015. Despite generally subdued M&A market conditions during this period, there have been a number of large Aged Care M&A transactions, as well as the successful listings of two major operators on the Australian Securities Exchange ("ASX").

The industry is going through substantial change and restructuring. The growing demand for Aged Care services combined with the potential additional revenue opportunities arising from the implementation of the Government's Living Longer Living Better reforms, is driving private investment in the sector. We expect to continue to see strong levels of M&A and IPO activity, as the major operators continue to capitalise on the growth and consolidation opportunities available.

Key insights:

1 **Mostly for profit buyers**

Whilst Not for Profit make up the majority of operators, almost all (92%) of the buyers of the Aged Care beds in the last 5 years have been for-profit organisations. Private investors are attracted to the sector because of the high growth forecasts, underpinned by our ageing population and their increasing care requirements. The Government's recent Living Longer Living Better (LLLB) reforms should also help encourage additional private investment into the sector, as there are now opportunities for operators to earn additional revenue via the provision of extra services through more of a "user pays" system, and increase cash flows for further expansion through the issue of Refundable Accommodation Deposits (known as a "RADs" or bonds) to high care residents.

2 **Private Equity buyers likely to create further industry change**

Private Equity (PE) buyers were behind the acquisition of approximately 43% of the beds that were acquired during the period. The PE buyers were Archer Capital, which acquired Lend Lease's Aged Care portfolio in 2013 (now branded Allity) and Quadrant Private Equity (Quadrant), which acquired Estia Health in 2013. Since acquiring these businesses, the PE firms have undertaken further bolt on acquisitions to quickly build scale and gain economies of scale. This PE investment is expected to benefit the industry, as the PE buyers plan to invest in improving systems, enhancing care models and in providing the funds needed to expand and upgrade facilities. These sophisticated investors are also expected to help the industry build potential new revenue streams to help reduce the current level of reliance on government funding.

3 **High valuations being achieved on some sales**

Some facilities have been sold at very high valuation multiples. The ones that have attracted the most acquirer interest are the larger, multi-site facilities that have assisted the buyers to quickly expand their operations, either nationally or in regions of high demand. Other factors driving high valuations include: modern facilities with single or double room configurations and ensuites; facilities with high care standards; and operations where there is potential to provide "extra services" to residents for additional fees.

4 **The Not for Profit operators will need to assess their strategy**

The large, Not for Profit operators have been noticeably absent from the list of buyers during the period. Nonetheless, not-for-profit operators must expect to be impacted by the increasing levels of private sector ownership and investment. Rivalry for residents is likely to increase in certain regions, as residents come to expect more modern facilities and additional service offerings. Not-for-profit operators may be required to invest in upgrading their facilities to remain competitive in certain regions. Accordingly, Not for Profit operators may need to consider whether such potential additional investment aligns with their core purpose and, if not, may wish to consider selling facilities to capitalise on the high valuations currently on offer.

5 **Further consolidation likely**

Most of the large for profit providers have plans to continue to expand through acquisitions. With 89% of operators currently having 5 facilities or less, there is unlikely to be a shortage of acquisition targets. Indeed, many of the smaller operators, particularly those with lower profitability levels and older style facilities, may become forced sellers, particularly if they struggle to remain financially viable following the impact of some of the less favourable recent industry reforms.

Transaction overview

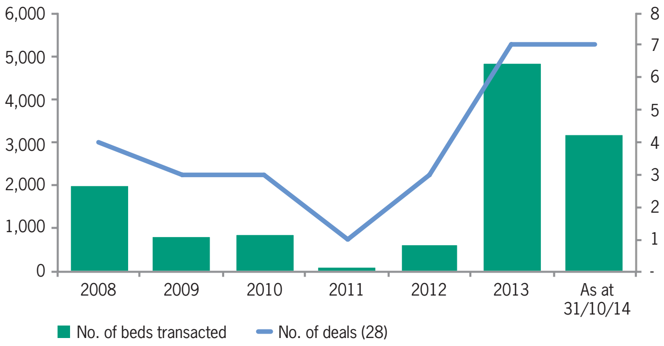
Since 1 January 2008 there have been 28 M&A transactions in the Aged Care sector in Australia, involving 141 facilities and 12,523 beds. Nearly half of these transactions have occurred in the last two years.

Strong investor interest in the sector was also evident in the recent Initial Public Offerings (IPOs) of Japara Healthcare Limited (Japara) in April 2014, Regis Healthcare Limited (Regis) in October 2014 and Estia Health Limited in December 2014. Since listing on the Australian Securities Exchange (ASX) these companies have been trading at significant premiums to their offer prices.

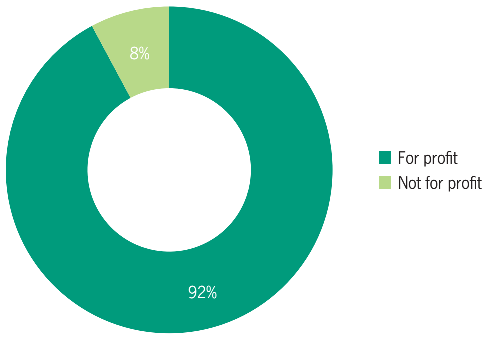
The increasing level of M&A activity since 2013 has no doubt been spurred by the Government's LLLB reforms, which were passed in the Senate in July 2013 and came into effect from 1 July 2014.

Whilst Not for Profit operators, such as religious, charitable and community based groups, currently provide in excess of 60% of residential Aged Care beds, private operators or investors bought 92% of the beds that were transacted during the period.

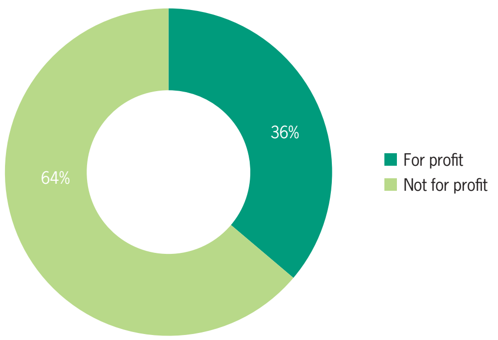
M&A - yearly trends



Not for Profit vs for profit residential Aged Care beds acquired



Not for Profit vs for profit operational Aged Care beds (189,761)



Notes: *'Beds' defined as the total of all operational residential Aged Care places in Australia as per The Department of Health: Aged Care Service List - Australia - as at 30 June 2013.

PE firms and Investment Managers (IM) were well represented amongst the buyers, having an interest in 60% of the beds that transacted during the period.

> *PE firms are on the look out for Aged Care businesses in regions where there is expected to be growing demand for Aged Care services. They are particularly interested in acquiring businesses with strong management teams, good care models, quality processes and systems and businesses with reliable financial information.*

The most active PE and IM buyers and their transactions were:

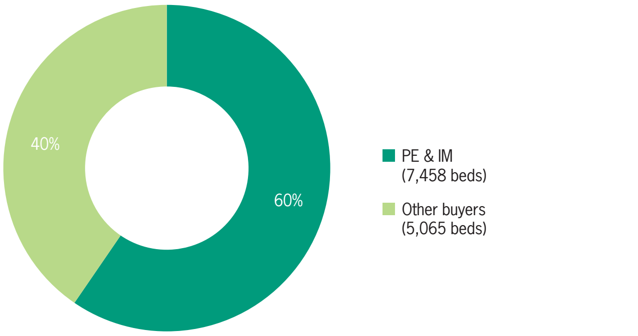
1 Archer Capital
Archer Capital which first acquired Lend Lease's Aged Care portfolio in 2013 and subsequently re-branded the business as 'Allity'. Allity later acquired 10 facilities from ECH, Inc. (ECH) in 2014.

2 Quadrant Private Equity
Quadrant acquired a majority interest in Estia in 2013. Estia then went on to acquire Padman Health Care in May 2014.

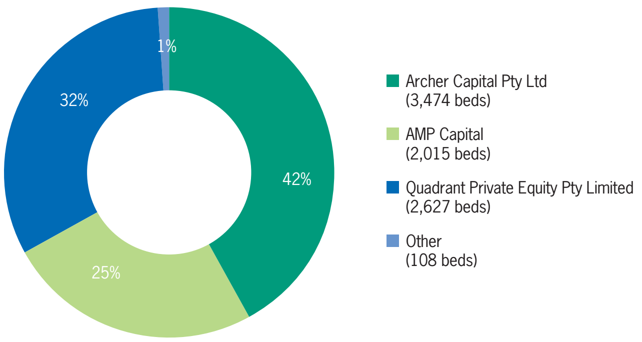
3 AMP Capital
AMP's Principal Healthcare Group purchased Domain Principal Group in 2008, re-naming the business 'Opal'. Opal then acquired Stockland Corp's Aged Care portfolio in August 2014. (In 2013 Singapore-listed investment company, G.K. Goh Holdings (GK Goh) acquired a 47.62% interest in Opal from AMP Capital).

Further details on these transactions are included on pages 10 to 12.

Dealmakers by no. of beds acquired (12,523 beds)



PE & IM acquisitions by no. of beds



Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, publically available information and Grant Thornton analysis.

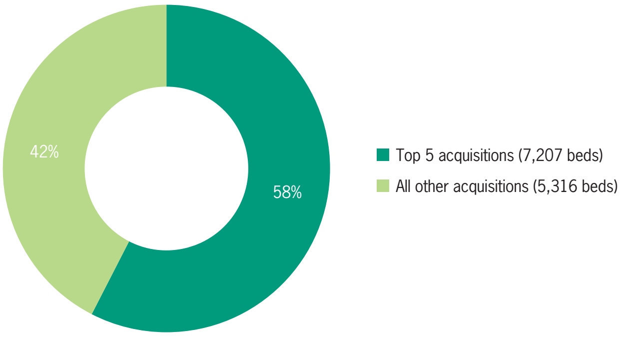
Acquisition activity by transaction size

The top five deals by number of beds acquired were:

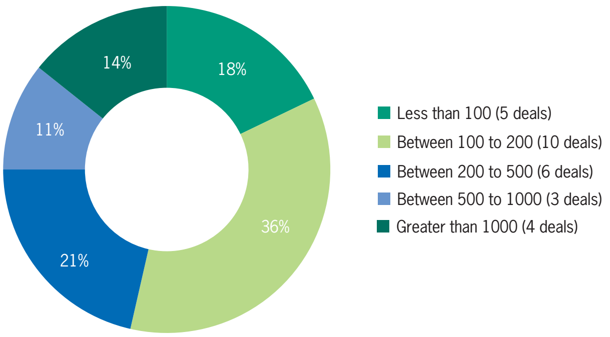
1	Archer Capital's acquisition of Lend Lease Group in 2013. The transaction was valued at A$270 million and included 2,416 beds.
2	AMP's Principal Healthcare Group's acquisition of Domain Principal Group in 2008 for A$350 million consisting of 1,646 beds.
3	Bupa's acquisition of Innovative Care Ltd for A$250 million in 2013. The transaction included 1,135 beds.
4	Allity's (Archer Capital) acquisition of ten ECH facilities in 2014, consisting of 1,058 beds.
5	Quadrant's purchase of Estia Health in 2013 for A$175 million, consisting of 952 beds.

Whilst the largest five acquisitions accounted for 58% of the total number of beds transacted, there was still a large number of transactions at the smaller end of the scale. In 21 of the 28 deals (75%), five or less facilities were sold.

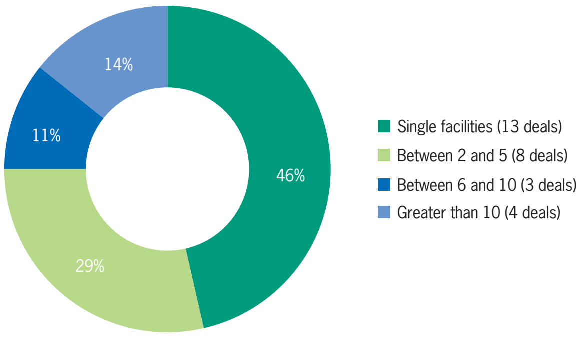
Top five acquisitions as a percentage of total beds acquired



No. of deals per transaction size range of beds



No. of deals per transaction size range of facilities



Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, publically available information and Grant Thornton analysis.

Acquisition activity by location

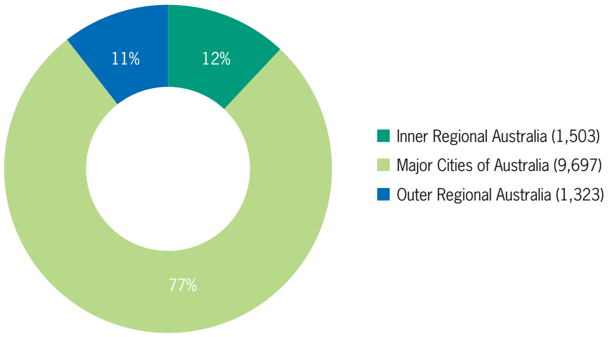
Target locations

Of the beds that were acquired, 77% were located in the major cities of Australia. This shows a preference by investors of acquiring more profitable facilities located in major city areas (beds in major city locations account for 68% of beds overall).

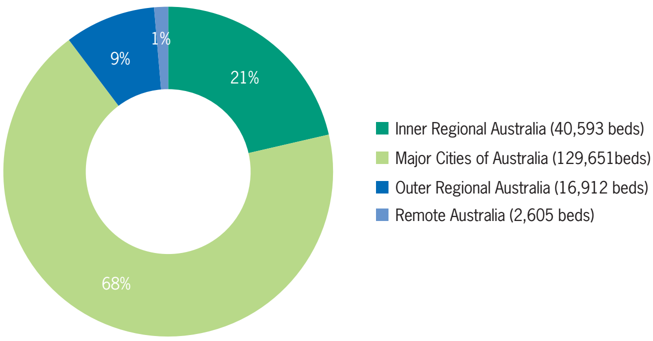
Relative to its size, South Australia (SA) had a high proportion of the acquisitions, with the largest being:

- Estia Health's acquisition of Padman Health Care's Aged Care business, which comprised approximately 900 beds
- Not for Profit provider, ECH, acquired the residential Aged Care services of Masonic Homes Limited (398 beds). Three of the four facilities acquired in this transaction were located in SA. These facilities were later sold to Allity (Archer Capital)
- Regis' acquisition of Baptist Care (SA) Inc's 125 bed facility in Davoren, SA
- Archer Capital's acquisition of Lend Lease's Aged Care business, which included a 62 bed facility in Elizabeth Vale, SA

Deal activity per beds acquired by nature of region



Total operational residential Aged Care beds by nature of region



Deal activity per state (includes deals with facilities in multiple locations)

Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, publically available information and Grant Thornton analysis.

The largest industry operators and their acquisitions

Included in the table below is a summary of the number of operational beds and facilities held by each of the top ten operators, as well as a summary of their total facility and bed acquisitions during the period.

Top 10 operators by no. of operational residential Aged Care beds

Rank	Provider	Current no. of operational beds	Current no. of facilities	No. of facilities acquired	No of beds acquired*
1	UnitingCare NSW.ACT	5,923	80	-	-
2	Bupa Australia Healthcare Holdings Pty Ltd.	5,814	61	13	1,498
3	UnitingCare Queensland	5,256	65	-	-
4	Opal Aged Care	5,142	60	20	2,015
5	Regis Aged Care	4,877	45	4	342
6	UnitingCare SA	3,765	54	-	-
7	Allity	3,474	41	41	3,474
8	Japara	3,070	35	-	-
9	Estia Health**	2,705	34	24	1,861
10	RSL Care (Qld & NSW)	2,479	27	-	-
	Total top 10:	**42,505**	**502**	**102**	**9,190**
	No. of beds acquired by all other providers				1,475
	Total acquired and currently owned				**10,665**
	Top 10 as a % of market/ beds acquired still owned	22%	17%		86%
	Beds transacted and subsequently sold				+1858
	Total overall	**189,761**	**2870**	**141**	**12,523**

For profit | Not for Profit

*Excludes development activity

**Includes 952 beds that were owned by Estia prior to Quadrant's acquisition of the business

Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, Grant Thornton analysis and publically available information.

Whilst the top ten operators only account for 22% of operational Aged Care beds, they purchased 86% of the beds that were acquired (and not on sold) during the period.

Outside of the top 10 operators and operator exits, there were only two other transactions where more than 200 beds were acquired. These were:

- RSL LifeCare's purchase of five facilities from Not for Profit religious provider, Anglicare Regional Alliance. The transaction included 318 beds and completed in June 2014
- Mercy Health's acquisition of three facilities located in Western Australia. The transaction completed in 2014

Operator exits

Our calculation of the 12,523 beds that transacted is an aggregation of all bed transactions that occurred during the Dealtracker period, including beds that changed hands more than once. This total includes 1,858 beds that were sold, but where the acquirer no longer owns the beds that it acquired. The relatively high proportion of beds bought and then sold is due to some formerly large operators exiting the Aged Care sector.

The operators that have exited include ECH, Stockland and Lend Lease.

ECH

ECH acquired four facilities from Masonic Homes in 2012 which were subsequently sold to Allity and Regis in 2014. ECH exited its Aged Care business to focus on its community care and in-home care services.

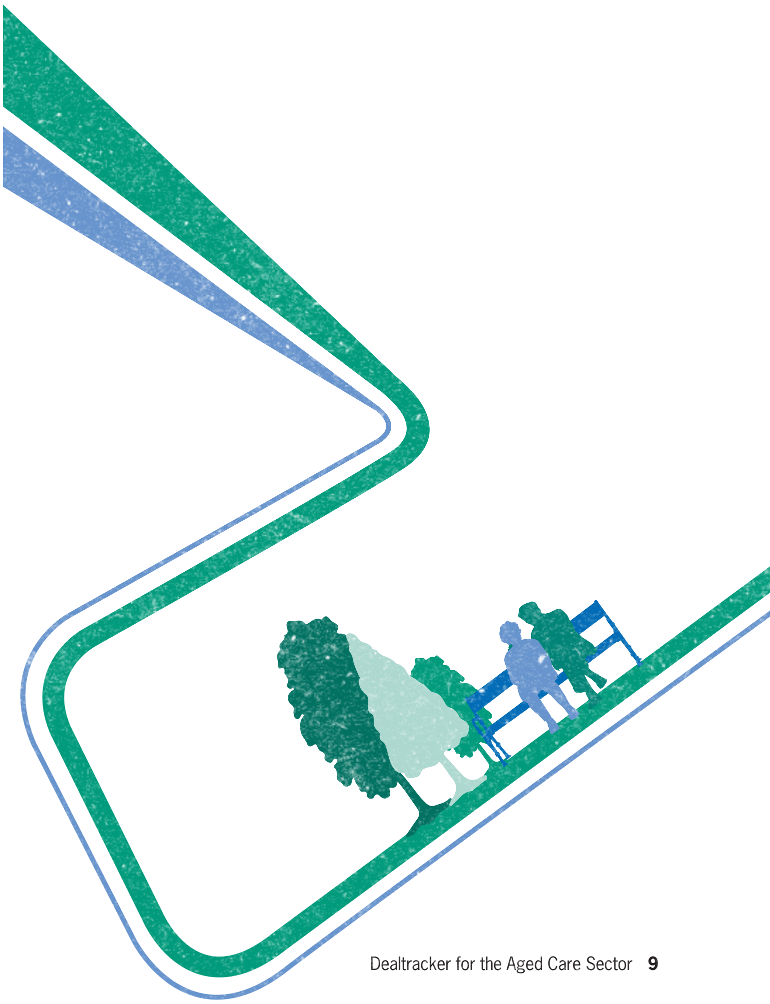
Stockland

Aveum Limited acquired IOR Group Limited's Aged Care portfolio which was then sold to Stockland and then subsequently sold by Stockland to Opal. Stockland was seeking to exit the sector to focus solely on it's retirement living area of the business.

Lend Lease

Lend Lease acquired 722 beds from Prime Retirement in 2009. These beds were included in the sale of Lend Lease's entire Aged Care portfolio to Allity (Archer Capital) in 2013. Lend Lease was seeking to divest its Aged Care business in order to focus on its core property offerings.

The largest 10 operators (based on number of operational residential Aged Care beds) were the buyers in the majority of the transactions. Interestingly, none of the largest Not for Profits bought any beds.



No.1 most active buyer: Archer Capital (Allity) 3,474 beds

Allity

- Allity was formed in 2013 following the acquisition of Lend Lease's Primelife Aged Care business in March of 2013
- Allity is currently completing a 'Signature Living' range of facilities. These facilities are being designed as 'exclusive clubs' rather than care homes. Residents at these facilities will have more luxurious accommodation and access to a vast array of extra services, such as gourmet specially prepared meals
- Archer Capital plans to invest further capital to grow the business via acquisition. The acquisitions by Archer/Allity during the Dealtracker period include:

2,416 Beds	**Acquirer:** Australian Aged Care Partners (Archer Capital) **Target:** Lend Lease Group (Aged Care business) **No. of facilities acquired:** 31 **No. of beds acquired:** 2,416 **Deal value:** A$270 million **Date:** 31/03/2013	Lend lease divested its Aged Care portfolio to focus on its core property offerings. Its Aged Care business consisted of 2,416 operational beds and approximately 500 beds under development. The transaction was highly contested; with both Archer Capital and Pacific Equity Partners vying for the business. Ultimately Australian Aged Care Partners (controlled by funds managed by Archer) acquired the business for A$270 million, subsequently rebranding the combined entity 'Allity'.
1,058 Beds	**Acquirer:** Allity **Target:** ECH, Inc **No. of facilities acquired:** 10 **No. of beds acquired:** 1,058 **Deal value:** NA **Date:** 31/08/2014	As part of its growth strategy, Allity acquired 10 of ECH's Aged Care facilities and a retirement village of 25 units. The acquisition of 1,058 beds helped Allity quickly build scale and provided access to the South Australian market (all of the beds acquired were in SA). Not-for-profit provider, ECH, sold its aged care portfolio to provide funding to invest in its ageing-at-home services. A key consideration for ECH during the sale process was finding a buyer that would continue to provide the same high level of care to its residents. The transaction left ECH with only one Aged Care facility, which it sold to Regis in August of 2014.

Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, Grant Thornton analysis and publicly available information.

> *"Archer Capital is seeking to rapidly build scale in the sector."*

No.2 most active buyer: Quadrant Private Equity (Estia)2,627 Beds

Estia Health

- Estia Health was acquired by Australian private equity firm, Quadrant, in 2013
- Prior to Estia's most recent acquisitions, its Aged Care offerings were only in Victoria. Since Quadrant's acquisition of the business, the business has grown rapidly and expanded its footprint nationally
- Quadrant plans to further expand Estia's Aged Care portfolio via acquisition to meet the strong growth in demand for Aged Care services
- In December 2014, Estia announced it's acquisition of an 80 room facility.
- The acquisitions by Quadrant/Estia during the Dealtracker period include:

952 Beds	**Acquirer:** Quadrant **Target:** Estia Health **No. of facilities acquired:** 12 **No. of beds acquired:** 952 **Deal value:** A$175 million **Date:** 14/10/2013	PE firm Quadrant, supported by Estia management, acquired Estia in October of 2013 in a transaction valued at A$175 million. At the time of transaction Estia had 12 facilities and 952 beds, all of which were located in Vic.
909 Beds	**Acquirer:** Estia **Target:** Padman Health Care **No. of facilities acquired:** 12 **No. of beds acquired:** 909 **Deal value:** NA **Date:** 27/05/2014	Estia acquired Padman Health Care in May 2014 as part of its acquisition growth strategy. At the time of the transaction, Padman Health Care was the largest private operator of residential Aged Care services in Queensland (Qld) and SA with 13 facilities. The acquisition included 909 beds and gave Estia an opportunity to expand the business into the Qld and SA markets.
766 Beds	**Acquirer:** Estia **Target:** Cook Care **No. of facilities acquired:** 11 **No. of beds acquired:** 766 **Deal value:** A$205 million **Date:** 31/07/2014	Estia acquired Cook Care in July 2014 as part of its acquisition growth strategy. Cook Care was a private operator of residential Aged Care services in New South Wales (NSW) and Qld and with 11 facilities. The acquisition included 766 beds and gave Estia an opportunity to expand the business into the NSW and Qld markets.

Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, Grant Thornton analysis and publicly available information.

“Estia has acquired businesses with quality Aged Care service models and an extensive portfolio of facilities.”

No.3 most active buyer: AMP (Opal) 2,015 Beds

Opal

- Opal is owned by AMP Life and G.K. Goh Holdings (GK Goh). AMP is an investment house with over $144 billion funds under management. GK Goh is a Singapore-listed investment company with net assets of approximately A$330 million. AMP and GK Goh both hold a 47.62% stake in the business, with the remainder being owned by Opal management
- Opal Aged Care currently offers residential Aged Care including, dementia care, respite care, assisted living, and permanent care services. It also offers pain management programs and various medical services, including physiotherapy, pharmacy, podiatry, optometry, and dental. Opal's facilities contain both private or companion bedrooms
- GK Goh also has ownership in a chain of retirement villages in Perth
- Opal announced it's acquisition of Aquarius Aged Care in December 2014. The deal will see Opal Aged Care acquire 551 operating beds across nine homes in New South Wales and Queensland. The offer value was A$50 million and expected to complete early in 2015.
- Opal has undertaken the following acquisitions during the Dealtracker period and plans to achieve further growth through additional acquisitions

1,646 Beds	**Acquirer:** Principal Healthcare Group **Target:** Domain Aged Care (nka: Opal Aged Care) **No. of facilities acquired:** 16 **No. of beds acquired:** 1,646 **Deal value:** A$350 million **Date:** 29/02/2008	In response to an investment downturn following the GFC, Australian investment and funds management company, MFS (now known as Octaviar) decided to sell its 100% ownership of Domain Aged Care. The business was purchased by AMP's Principal Healthcare Group (PHG) for A$350 million in early 2008. The transaction involved all 16 facilities operated by Domain Aged Care and a further four that were under construction. PHG was attracted to Domain's strong development pipeline in the South East Queensland (Qld) region and an additional 1,646 beds located in Qld and Victoria (Vic). The acquisition enabled PHG to broaden its offerings nationally, as its Aged Care portfolio was predominantly in NSW at the time of the transaction. Post transaction, the business was renamed 'Domain Principal Group' and it continued to operate as such until the 4th of June 2014 when the business changed its name to 'Opal Aged Care'.
369 Beds	**Acquirer:** Opal Aged Care **Target:** Stockland Corp **No. of facilities acquired:** 4 **No. of beds acquired:** 369 **Deal value:** A$25.6 million **Date:** 18/08/2014	In August 2014, Opal acquired Stockland Corp's Aged Care portfolio for A$25.6 million. The acquisition included 369 operational beds and 92 bed licenses that were assigned to the development of a potential new Aged Care facility in NSW. Of the four Aged Care facilities sold, two were located in NSW and the remaining two located in Vic. Stockland is one of Australia's largest diversified property groups. Stockland was seeking to divest its Aged Care assets to enable it to focus on the retirement living area of the business. As Stockland's Aged Care portfolio was located within the grounds of Stockland's retirement villages, the group undertook an extensive search to find the right acquirer to take over its Aged Care assets. The buyer's ability to continue to provide a high level of residential care was an important consideration for Stockland in selecting an appropriate buyer.

Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, Grant Thornton analysis and publicly available information.

> *"Opal needed to be able to demonstrate to Stockland that they could provide high care levels post acquisition."*

No. 4 most active buyer: Bupa
1,498 Beds

Bupa Australia Healthcare (Bupa)

- Bupa is a leading provider of health insurance with additional offerings such as, life, travel, home and contents and car insurance. The company also provides eye care via Bupa Optical and dental services through Dental Corp. Bupa also operates Aged Care facilities throughout Australia and New Zealand. The company is based in Sydney, with its ultimate corporate parent being headquartered in the United Kingdom (UK)
- Bupa has grown its Aged Care business through acquisition and greenfield development. Bupa has also been moving towards greater levels of integrated care in their homes, for example, offering dental and optical services to Aged Care residents and employing GPs in their homes

120 Beds	**Target:** Perpetua in the Pines **No. of facilities acquired:** 1 **No. of beds acquired:** 120 **Deal value:** NA **Date:** 13/02/2008	Perpetua in the Pines operates as a nursing home facility in Victoria. It offers long term care and provides services such as hairdressing and podiatry. Bupa's subsidiary 'DCA Group Ltd' acquired the 120 bed facility in 2008. Since taking over operations, Bupa has introduced additional services such as newspaper delivery and alcohol with meals as part of the 'user pays' system.
124 Beds	**Target:** Shalom Toowomba **No. of facilities acquired:** 1 **No. of beds acquired:** 124 **Deal value:** NA **Date:** 01/08/2012	Shalom Toowomba is an Aged Care facility located in inner regional Qld, it offers 124 residential Aged Care places all of which have ensuites, with the majority being high care. The facility also houses a specialist dementia team. The acquisition was driven by the desire to offer a greater number of Bupa Aged Care places in close proximity to one of its existing Aged Care facilities.
119 Beds	**Target:** Vaucluse Gardens **No. of facilities acquired:** 1 **No. of beds acquired:** 119 **Deal value:** NA **Date:** 12/06/2012	Vacluse Gardens is an extra service Aged Care home comprising three buildings that cater to different resident care needs, including low, high and dementia care. All rooms are of high quality and include ensuites, with the majority offering patio access and views. The acquisition allowed Bupa to expand its Aged Care offering into Tasmania, an area it was previously not exposed to.
1,135 Beds	**Target:** Innovative Care Ltd **No. of facilities acquired:** 10 **No. of beds acquired:** 1,135 **Deal value:** A$250 million **Date:** 08/02/2013	At the time, Bupa's acquisition of Innovative Care was one of the most significant transactions in the Australian Aged Care market for some time. The acquisition included 10 Aged Care residential homes, with 1,135 beds in Qld, NSW and Vic. Bupa was attracted to Innovative care's geographic spread, high quality of care and strong management team. The acquisition also provided Bupa with greater scale in Victoria.

Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, Grant Thornton analysis and publicly available information.

> *"Bupa has acquired Aged Care businesses offering extra services with quality facilities and excellent standards of care."*

What is driving the private investment

There are a number of factors driving the recent investment interest in the Aged Care Sector.

These include:

- Strong forecast industry growth rates
- The fragmented nature of the industry; and
- Recent LLLB and other government reforms

Each of these factors is discussed further below.

Industry growth rates

Industry revenue is forecast to increase at an annualised 5.3% in the five years to 2020, which is more than double that of the forecast Australian GDP growth of 2.6% over the same period.* The number of residential Aged Care beds is expected to grow from approximately 190,000 to 260,000 by 2022.*

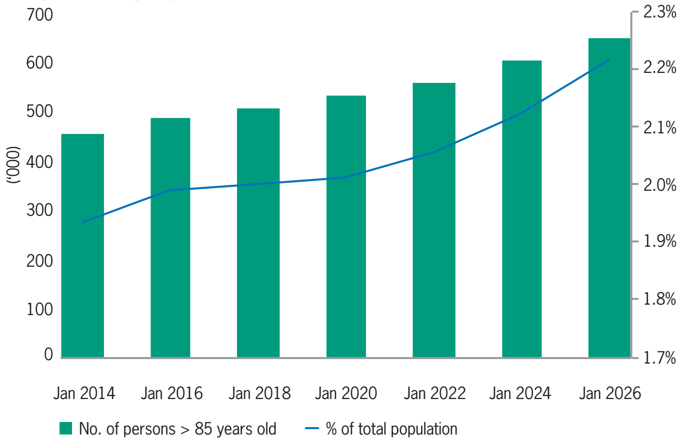
The relatively higher wealth levels of the "baby boomer" generation is also likely to support a trend towards higher standards of accommodation and increasing demand for ancillary services.

Fragmented nature of the industry

The Aged Care sector is highly fragmented with the top five Aged Care providers accounting for only 14% of the market in terms of ownership of operational residential Aged Care beds.

The large private providers are actively seeking growth through acquisition and there is expected to be no shortage of acquisition targets, with 63% of operators still running single facilities.

Population projections



Sources: ABS, 3222.0 Population Projections, Australia and Grant Thornton analysis.

There is still significant opportunity for further consolidation as 89% of operators have five or less facilities.

*IBIS World September 2014, Nursing homes in Australia
*Inaugural Report on the Funding and Financing of the Aged Care Sector", Aged Care Financing Authority 2013.

No. of facilities run by operator

	No. of beds	No. of operators	% of operators
Single facilities	33,666	553	63%
between 1 - 5	42,637	231	26%
between 5 - 10	24,412	41	5%
between 10 - 20	26,697	26	3%
Greater than 20 facilities	62,349	24	3%
Total	**189,761**	**875**	**100%**

Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, publically available information and Grant Thornton analysis.

Recent LLLB and other government reforms

Of the various elements of the LLLB reform, the key changes that are encouraging further investment in the sector include:

Alternative income streams

The LLLB reforms provide operators with greater flexibility to set fees and encourages mores of a "user pays" system. Operators can now charge additional fees to residents for hotel-type services such as alcohol with meals, gourmet menu options, luxury accommodation options and on-site services such as hairdressers etc. These changes are helping to incentivise investment in the sector due to the number of new opportunities to generate income.

Harmonising accommodation payments between high care and low care

Residents have been given the choice of payment type being either a Refundable Accommodation Deposit (known as a "RAD" or bond) or a Daily Accommodation Payment (known as a "DAP" or periodic payment).

The LLLB reforms provide an opportunity for operators with high care patients to increase cash flows from utilising bonds, as previously operators were unable to charge a RAD or an equivalent DAP (other than extra services places) on high care places.

These changes are expected to help providers to generate more cash to fund further expansion of facilities.

Refurbishment supplements

Providers that undertake 'significant' refurbishment or build a new facility are entitled to a higher accommodation supplement per eligible resident. The increase in accommodation supplements is also likely to assist operators to grow by helping to fund the development of new facilities.

Reduced service offerings may place small operators at a competitive disadvantage when residents come to choosing an appropriate Aged Care home.

Whilst the LLLB reforms are expected to have a positive impact on the sector as a whole, some of the changes are expected to place greater financial pressure on operators of the less profitable facilities.

The reforms that may cause difficulty for some operators, include:

- The potential for residents to choose payment of a DAP rather than a RAD

The vast majority of low care residents have paid bonds. The reforms mean that providers who currently hold RADs (bonds) may be requested to repay existing RADs to departing residents. This could create a number of issues for some operators including:

1. **Reduced profitability:** Operators may need to replace interest free loans from residents (i.e. bonds/RADs) with interest bearing debt.
2. **Gearing risks:** Some operators may not be able to generate sufficient profits to support higher interest bearing debt levels.
3. **Less funds for capital investment:** The potential need to replace bond holdings with interest bearing debt may also mean that operators have a reduced capacity to fund capital investment. This is likely to affect low care facilities as most of these facilities are typically older-style facilities in need of capital investment to stay competitive.

- Bond retentions not being able to be drawn from 1 July 2014

Operators have not been able to draw bond retentions post 1 July 2014. Therefore the profitability levels of operators that held bonds will reduce, unless they can increase accommodation prices or find alternative income streams to replace the bond retention income.

This change is expected to add pressure to the viability of some operators, particularly those were relying on retention income to be profitable.

The reforms and budget changes could place pressure on operators with low profitability and older-style facilities in need of development. They may struggle to find alternative revenue streams to offset potentially reduced incomes from bond retentions and payroll tax supplements.

Federal Government Budget changes

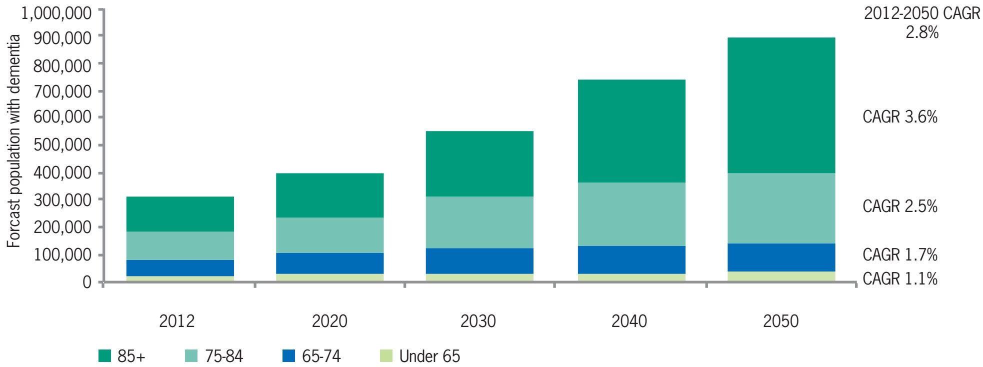
Budget payroll tax

Another significant change impacting the industry, is the cessation of the existing payroll tax supplement paid to Aged Care providers, that was announced as part of the 2014/15 Federal Budget and which will be effective from 1 January 2015. The supplement is currently only paid to private providers. Again, this will place pressure on the profitability (and potentially the financial viability) of operators that are not able to replace the payroll tax supplement with additional income through increasing fees or providing additional services.

Dementia and severe behaviours supplement

The Federal Government's decision to cut the dementia and severe behaviours supplement may mean that operators that specialise in dementia care may no longer be able to continue to afford the cost of servicing residents with these special care needs.

Historical and forecast growth in the Australian population with dementia



Sources: Calculations by AIHW using rates based on ADI (2009) and Harvey et al. (2003) and applied to population data for 2005 to 2011 (ABS 2012a) and population projections for 2012 to 2050 (ABS 2008a).

The less profitable smaller operators are likely to become acquisition targets for the larger, more efficient operators.

Valuation metrics

Valuation metrics

Aged Care facilities are often valued based on a multiple of earnings before interest, tax, depreciation and amortisation (EBITDA) on a per bed basis.

Net Value of facilit(ies)* = (**EBITDA per bed** x **Multiple**)

*Assumes facilities are sold on a debt free/ cash free basis and accomodation bonds are assumed by the purchaser.

Normalised EBITDA.

Earnings are normalised by removing short term aberrations in earnings.

Typical adjustments include:

- Extraordinary and non-recurring items
- Non commercial transactions

The multiple reflects the required rate of return a purchaser is willing to pay.

e.g.:

- If a 10% return is required then the multiple is 10 times
- If a 20% return is required then the multiple is 5 times

The multiple generally reflects the growth prospects and risks attached to the earnings of the business to be acquired.

The industry standard is currently for operators to own their facilities. The value of the underlying property is included in the value determined based on a multiple of EBITDA per bed.

Valuation drivers

The valuation multiples that we have observed have been between 4.6 and 20.0 times EBITDA. There are many factors that have the ability to drive high and low valuations. Some of which include:

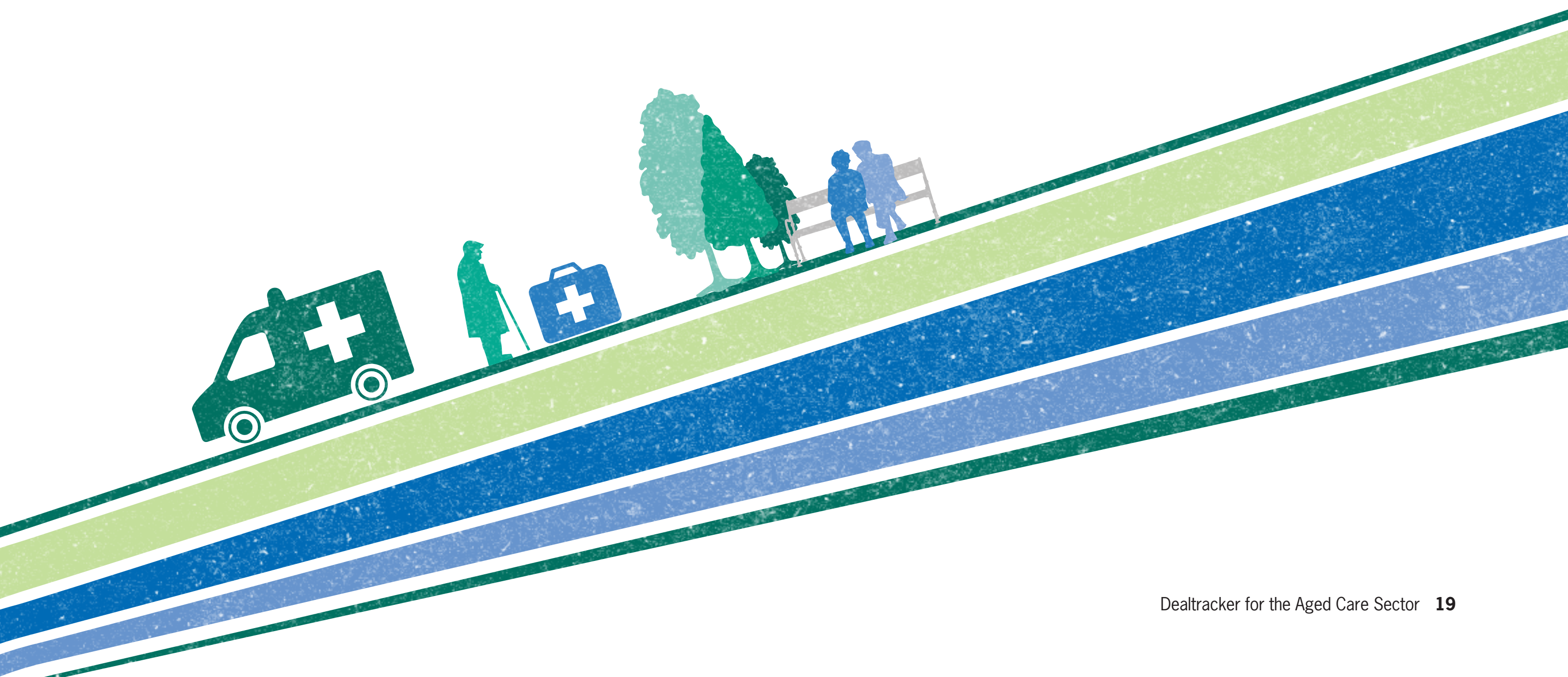
Value

- Multiple facilities
- Ability to scale or develop facilities
- Bond uplift potential
- Facilities located in areas with unmet demand
- Potential to sell value added services
- Single or double room configurations with ensuites
- Quality refurbishments
- Good base of nurses
- High care and food standards
- High profitability levels
- Efficient operations
- Depth of management

Higher valuations

- Low growth prospects
- Hospital style room configurations
- Facilities in need of refurbishment
- High level of casual nursing staff
- Risks around retaining current bond levels
- Funding issues
- Low profitability levels
- Low care standards
- Potential EBA issues

Lower valuations



Recent IPOs

Japara has continued to trade above its Offer Price since listing, Japara plans to continue to grow through acquisitions of quality Aged Care facilities and through brownfield developments.

Japara Healthcare Limited

Company	Listing date	Industry	Offer Size (A$m)	FY2015F Pro forma EBITDA (A$m)	FY2015F EV/EBITDA Forecast multiple	IPO price (A$)	Price at 31/3/2015 (A$)	Price change (%)
Japara Healthcare Limited	17/04/14	Healthcare	450.4	49	10.4x	2.00	2.67	34%

Japara Healthcare Limited

Residential Aged Care facilities provider, Japara listed on the ASX in April 2014 at an IPO price of A$2.00. It was trading at a premium of 34% to its offer price at 31 March 2015.

Japara is one of the largest residential Aged Care operators of healthcare services in Australia with over 3,000 places nationally across 35 facilities. The listing attracted substantial investment interest on the back of strong expected growth in demand for residential Aged Care services in Australia, with the number of Australians aged 85 years and over anticipated to double in the next 20 years.*

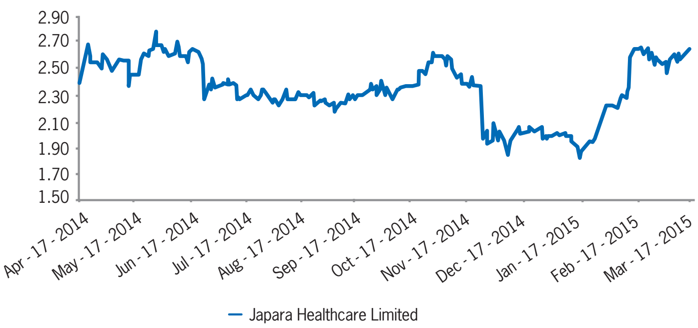
Japara's strategic goal is to increase its portfolio to approximately 5,000 (from 3,070) residential Aged Care places over the medium term.

The company's growth ambitions are expected to be achieved through acquisition of existing Aged Care facilities that meet its investment criteria as well as brownfield (extending existing facilities) development.

Since listing, Japara has been quick to implement its growth strategy, recently announcing its acquisition of Whelan Aged Care. The acquisition will include all four of Whelan's Aged Care facilities, containing approximately 258 beds. The acquisition will provide Japara with additional scale and further access to the South Australian market. The transaction was settled in October 2014.

The company has also completed three Brownfield developments in Victoria, adding another 124 new beds to its portfolio.

Japara Healthcare Limited (ASX:JHC) - Day Open Price



Sources: Australian Securities Exchange, S&P Capital IQ, Japara Prospectus.

*ABS Statistic, 3222.0 Population projections, Australia.

Regis plans to achieve growth through a combination of single facility acquisitions and brownfield/greenfield developments.

Regis

Company	Listing date	Industry	Offer Size (A$m)	FY2015F Pro forma EBITDA (A$m)	FY2015F EV/EBITDA Forecast multiple	IPO price (A$)	Price at 31/3/2015 (A$)	Price change (%)
Regis	07/10/2014	Healthcare	485.9	86.9	12.2x	3.65	5.96	63%

Regis

Regis is a leader in the provision of residential Aged Care services and has become one of the most geographically diverse private Aged Care providers in Australia.

The company made its debut on the ASX on 7 October 2014. Its listing has also been very successful to date. As at 31 March 2015, Regis was trading at a 63% premium to its offer price of A$3.65.

Regis also plans to assess portfolio acquisitions as they arise.

Regis plans to achieve growth through a combination of single facility acquisitions and brownfield/greenfield developments.

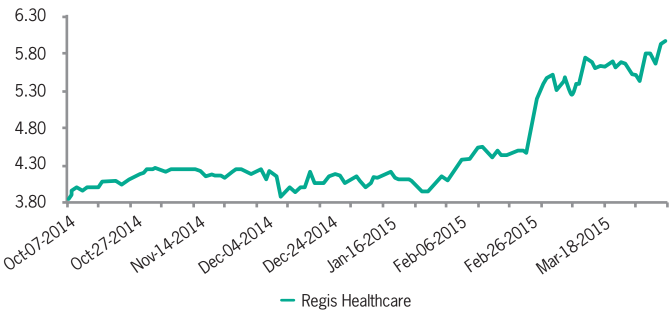
Most of Regis facilities are modern facilities, with single rooms and are located in Metropolitan areas where there are high median house prices.

Regis also plans to expand and reconfigure its existing facilities.

During the past three years Regis has acquired:

- The Tiwi Residential Care facility from ECH. The 135 bed facility is located in the Northern Territory.
- The Embleton Care facility from Anastas Investments. The 82 bed facility is located in Perth.
- The Daveron Park facility from Baptist Care (SA). The 125 bed facility is located in South Australia.

Regis Healthcare Limited (ASX:REG) - Day Open Price



Sources: Australian Securities Exchange, S&P Capital IQ, Regis Prospectus.

Listing multiples and immediate price returns

Estia is positioned to benefit from its increased scale and access to capital and will continue to invest in improving and growing its portfolio of facilities to meet the growing demand for residential aged care services.

Estia Health Limited

Company	Listing date	Industry	Offer Size (A$m)	FY2015F Pro forma EBITDA (A$m)	FY2015F EV/EBITDA Forecast multiple	IPO price (A$)	Price at 31/3/2015 (A$)	Price change (%)
Estia Health Limited	5/12/2014	Healthcare	725.0	70.2	13.5x	5.75	6.10	6%

Estia Health Limited

Estia Health has grown to be one of Australia's largest aged care providers, caring for the needs of thousands of seniors across the country, in aged care homes ranging from boutique residences to community-like villages.

The company made its debut on the ASX on 5 December 2014. As at 31 March 2015, Estia was trading at a 6% above its offer price of A$5.75.

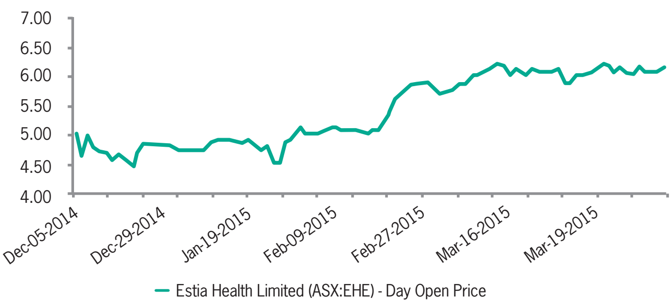
Estia will seek to continue to grow via:

- Operational improvements in existing and newly acquired facilities in order to increase occupancy and revenue
- Acquiring single facilities or portfolios that meet Estia's acquisition criteria
- Brownfield expansion
- Greenfield expansion

During the past three years Estia has acquired:

- Padman Health Care who at the time of acquisition was the largest private operator of residential Aged Care services in Queensland and SA. The acquisition included 909 beds.
- Cook Care Group who was a private operator of residential Aged Care services in New South Wales (NSW) and Qld with 11 facilities. The acquisition included 766 beds.

Estia Health Limited (ASX:EHE) – Day Open Price



Sources: Australian Securities Exchange, S&P Capital IQ, Regis Prospectus.

Deal valuations

There is limited publicly available information on EBITDA deal multiples. However, the median EBITDA multiple of the deals that Grant Thornton has been involved with during the period is 11.5 times, with multiples as high as 21.1 times EBITDA being achieved.

Median EBITDA deal multiples

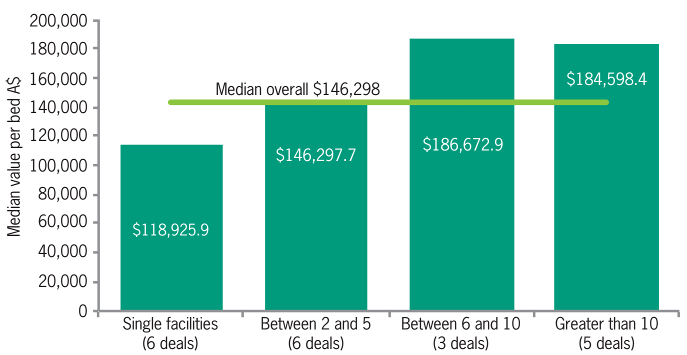
No. of deals	No. of beds	Median Net deal/ EBITDA multiple*
5	Less than 1000	10.1x
3	Greater than 1000	12.9x
	Median overall	**11.5x**

*Based on deals where Grant Thornton has access to deal multiples.

*Net deal value calculated to be value assuming adoption of accommodation border by the acquirer.

Given the limited information on EBITDA multiples per bed, we also analysed deal values based on the number of beds that transacted. Our calculation of median values excludes transactions where the value was influenced by the facilities having associated retirement places.

Median value per bed per number of facilities acquired*



*Median values calculated based on 20 deals during the Dealtracker period with available deal values.

This analysis also showed that higher values were achieved when more beds were transacted. Other factors driving valuation multiples include the level of bonds, geographic location and the ability to expand the facilities.

Median value per place stratified based on the number of facilities acquired

Size range by total number of facilities acquired	Number of transactions	Total beds acquired	Median transaction value A$m	Median value per bed A$
Single facilities (6 deals)	6	655	15	118,926
Between 2 and 5 (6 deals)	6	1,697	35	146,298
Between 6 and 10 (3 deals)	3	2,915	198	186,673
Greater than 10 (5 deals)	5	6,689	205	184,598
Total	**20**	**11,956**		
Median overall			**48**	**146,298**

A summary of the median deal multiples that we have observed over the period are included in the table below:

Median value per place per date range

Date	Number of transactions	Total beds acquired	Median transaction value A$m	Median value per bed A$
01/01/2008 - 31/12/2012	6	3,036	54	134,809
01/01/2013 - 31/12/2014	14	8,920	46	146,298
Total	**20**	**11,956**		

Notes: Information was not available in relation to McKenzie Aged Care Group's acquisitions of 7 Embracia facilities or in relation to Estia's acquisitions of 3 independently operated private facilities. As such, these transactions have not been included above.

Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, S&P Capital IQ, and Grant Thornton analysis.

As expected, higher value per bed was achieved in transactions where more facilities were sold. Operations where there are more facilities tend to be more profitable due to economy of scale benefits and greater opportunities to sell value added services.

Surprisingly, there is no evidence of recent improvement in valuation multiples, as there was little difference between the median value of beds in the periods between 2008 to 2012 and 2013 to 2014.

ASX listed company trading multiples

Included in the table below are the EBITDA earnings multiples to Enterprise Value (EV) of the Aged Care and Healthcare companies that are listed on the ASX. The multiples shown are based on the share prices of these companies as at 31 March 2015.

ASX Healthcare & Aged Care operations

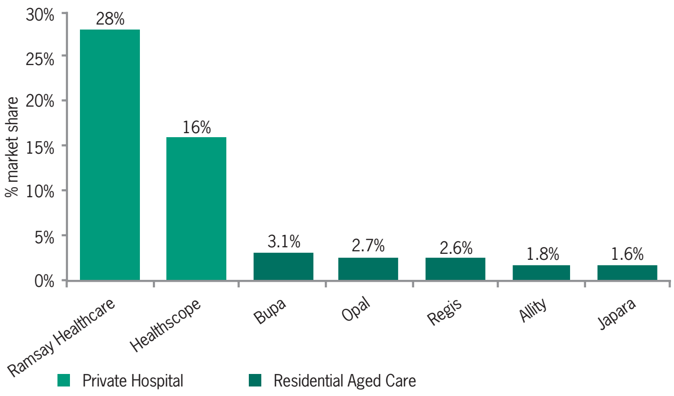
Company	Market capitalisation as at 31/3/15 (A$m)	Enterprise value (A$m)	Historical Sales (A$m)	Historical EBITDA margin (%)	Historical EBITDA multiple (times)	Forecast FY15 EBITDA multiple (times)	Forecast FY16 EBITDA multiple (times)
Aged Care							
Japara Healthcare Limited	710	662	194	4%	15.9x	13.5x	12.2x
Regis Healthcare Limited	1,802	1,729	410	15%	20.7x	19.9x	17.0x
Estia Health Limited	1,109	1,389	219	13%	29.6x	19.9x	NA
			Median		20.7x	19.9x	14.6x
Other Healthcare							
Healthscope Limited	5,300	6,133	2,326	15%	17.2x	15.8x	14.5x
Primary Health Care Limited	2,817	3,967	1,524	25%	10.5x	9.5x	9.1x
Ramsay Health Care Limited	13,493	16,413	4,915	14%	24.2x	15.1x	12.9x
Sonic Healthcare Limited	8,216	10,184	3,913	18%	14.3x	13.3x	11.9x
			Median		15.7x	14.2x	12.4x
			Median overall		**17.2x**	**15.1x**	**12.6x**

Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, Japara Prospectus, Regis Prospectus, Estia Prospectus Company websites and Grant Thornton analysis.

Whilst Japara, Regis and Estia are substantially smaller than these other listed Healthcare businesses, they are trading at higher forecast earnings multiples. The higher EBITDA multiples of the listed Aged Care businesses is no doubt a reflection of the high growth rates expected for these businesses given the strong opportunities for growth through acquisition.

Whilst all the companies are likely to benefit from the organic growth opportunities arising as a result of our ageing population, the opportunity to grow through consolidation is substantially greater for Japara and Regis. The top five private Aged Care operators currently account for approximately 12% of the market share and therefore there is significant scope for these operators to grow through acquisition. Whereas, the two large private hospital operators constitute 44% of their market and have comparatively less opportunities to grow through acquisition.

Aged Care vs. private hospital market share of top two operators



Sources: The Department of Health: Aged Care Service List - Australia - as at 30 June 2013, Japara Prospectus, Regis Prospectus, Company websites, S&P Capital IQ and Grant Thornton analysis.

Healthscope Limited

Healthscope Limited is a well established private hospital operator. The company has approximately 44 hospitals through which it provides acute medical and surgical services, psychiatric care, rehabilitation and extended care. Healthscope also operates independent living housing facilities and approximately 578 collection centres and 69 accredited laboratories; and 46 medical centres and 11 specialist skin cancer clinics.

Healthscope was originally listed on the ASX in 1994, however was de-listed after being acquired by a consortium of funds in 2010. The Healthscope business was re-listed on the ASX in July of 2014 following a period of successful growth under private ownership.

Primary Health Care limited

Primary Health Care Limited provides various services and facilities to general practitioners, specialists, and other health care providers in Australia.

It operates 71 Medical Centres and has the largest number of pathology collection centres in Australia. Primary Health Care also provides Health Technology, such as clinical and practice management software for Australian general practitioners and specialists. Additionally, it is the second largest diagnostic imaging network by revenue in Australia.

Ramsay Health Care Limited

Ramsay Health Care Limited provides health care services to both public and private patients, with operations across Asia Pacific, UK, and France. The company's health care services comprise day surgery procedures and complex surgeries, as well as psychiatric care and rehabilitation services. The company operates approximately 151 hospitals and day surgery facilities in Australia, the United Kingdom, France, Indonesia, and Malaysia with approximately 14,500 beds.

Sonic Healthcare Limited

Sonic Healthcare Limited, a healthcare company, provides medical diagnostic services, and administrative services and facilities to medical practitioners. It operates through Pathology, Radiology, and other segments. The company offers pathology/clinical laboratory, diagnostic imaging, and radiology services to physicians, hospitals, community health services, and their collective patients. It also operates a network of primary care medical centres and independent practitioner network, as well as other Healthcare businesses. In addition, the company provides clinical and patient support services, as well as health assessment services to insurance and corporate industries. It has operations in Australia, New Zealand, the United Kingdom, the United States, Germany, Switzerland, Belgium, and Ireland.

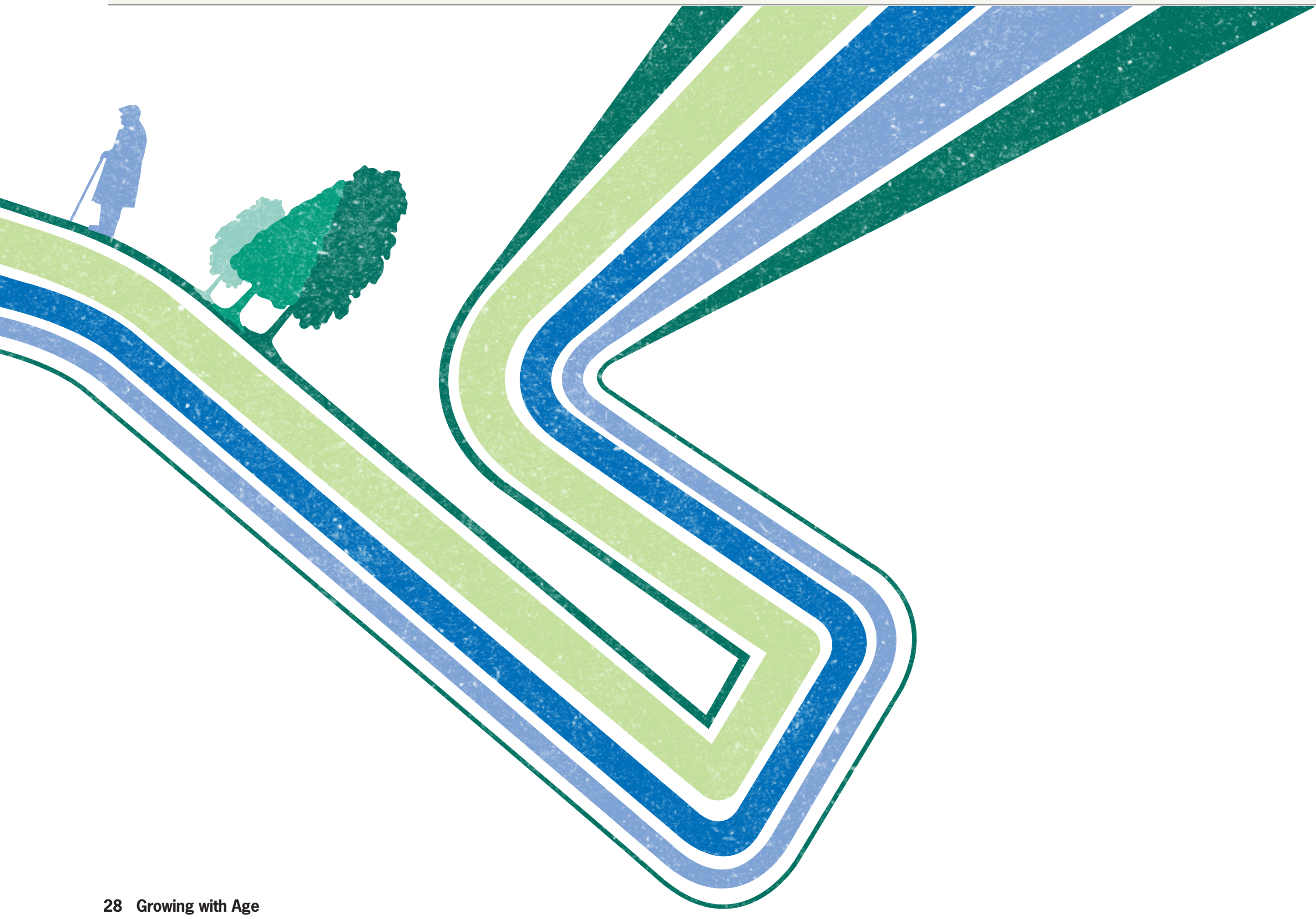
Will you get maximum value for your business?

Aged Care operators will need to continue to adapt to the changing landscapes. Operators should consider both organic and M&A strategies to leverage potential opportunities in the current market conditions.

The Grant Thornton Aged Care team can help you consider the best approach to each of these important questions.

Aged Care	Why it's important	Some key questions to ask
Do you have a clear strategy?	Unless you have a clear strategy, you are unlikely to maximise value from your Aged Care business, either through investment returns or alignment with your core purpose	Will you have the profitability levels and access to funding needed to remain competitive? How can you leverage opportunities in the market? Can you diversify your service offerings to provide additional revenue streams? Should you consider selling to capitalise on the current high levels of buyer interest? If selling, who would you be prepared to sell to?
Should you be making strategic acquisitions or investments?	Strategic acquisitions or investments could help you increase the value of your aged care business and/or help you better achieve your strategic objectives.	Should you be looking to invest in new facilities to grow, achieve scale or expand? If so, should you acquire new facilities, undertake greenfield or brownfield developments or do a combination thereof? Do you have the management, operational financial systems in place to support your growth plans? How should you fund your growth strategy? How should you structure a deal to maximise value from a potential acquisition?
Are you sale ready?	Even if you have no immediate plans to sell, you may receive an approach from one of the many large operators, currently seeking growth through acquisition.	Are you able to demonstrate that you regularly generate and review reliable monthly income statements, balance sheets, cash flow statements and compare budget and actual performance? Would you be able to readily “carve out” the financial information of the Aged Care business to be sold? Do you have the systems and processes in place that would enable a potential purchaser to grow the business? Are all your transactions occurring on an arm's length basis? Do you have appropriate legal structures and contracts in place to help facilitate the sale of the business?

Are you considering selling?	You should be "sale ready" to ensure that you receive maximum value from any potential sale negotiations.	Do you know what your Aged Care business is worth? Have you developed an exit plan? Have you identified potential purchasers and do you understand their value drivers? Have you received advice on how to best structure a deal? Have you considered potential tax issues, both from a structural and operational perspective? For example, the sale by a not-for-profit operator to a for-profit operator could result in the removal of staff salary package advantages.
Will you ensure value is retained during and after the sale process?	The sale needs to be managed and structured so that you ultimately receive the level of consideration that you expect. It is also important to retain the trust and confidence of residents and staff during the sale process.	Could potential purchase price adjustments at deal completion result in you receiving less consideration than you expected? Are the warranties and indemnities requested reasonable? Do you have appropriate systems and procedures in place to maintain confidentiality during the deal process, for example through confidentiality agreements, project names, limited involvement of staff, restricted site visits etc.? Is there a proper communication plan in place to communicate with staff and residents once there is greater deal certainty? Are you confident that the buyer has the skills, accreditations and experience to ensure that the interests of residents and staff will be appropriately protected post sale? Are you prepared for the unexpected, e.g. union issues, media leaks, etc.?



About Grant Thornton

Our National Health & Aged Care team

Our team is a highly experienced team with a long history of working with clients in the health and aged care sector. Our cross functional team of health and aged care specialists includes clinicians and technical experts.

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About Grant Thornton

38,500+
people globally

120
countries

$4.7BN
worldwide revenue 2013 (USD)

1,100+
people nationally

Industry specialisations

- Automotive Dealerships
- Education
- Energy & Resources
- Financial Services
- Food & Beverage
- **Health & Aged Care**
- Hospitality & Tourism
- Life Sciences
- Major Projects & Infrastructure
- Manufacturing
- Not-for-Profit
- Professional Services
- Public Sector
- Real Estate & Construction
- Retail
- Technology & Media

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms.

These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions.

Grant Thornton Australia has more than 1,100 people working in offices in Adelaide, Brisbane, Cairns, Melbourne, Perth and Sydney. We combine service breadth, depth of expertise and industry insight with an approachable "client first" mindset and a broad commercial perspective.

More than 38,500 Grant Thornton people, across over 120 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work. Through this membership, we access global resources and methodologies that enable us to deliver consistently high quality outcomes for owners and key executives in our clients.

Tax

- Business planning tax advice
- Corporate tax risk management services
- GST & indirect taxes
- Fringe benefits tax
- Employment taxes
- International tax
- Transfer pricing
- Expatriate taxes
- Research & development
- Corporate advisory services

Audit & assurance

- External audits
- Internal audits
- Reviews of financial reports
- Technical IFRS & accounting advice
- IFRS training
- Expert accounting & audit opinions
- Systems & controls reviews
- Compliance audits & reviews

Privately Held Business

- Business & strategic planning
- Compliance services
- Tax advisory services
- Private wealth advisory
- Outsourced accounting solutions

Advisory services

Financial advisory

- Acquisition & investments
- Due Diligence
- Valuations
- Fraud risk management & investigation
- Initial Public Offering
- Investigating Accountant's Reports
- Independent Expert's Report
- Financial Modelling
- Transaction advisory services
- Merger integration

Operational advisory

- Internal Audit
- Information Technology Risk & Security
- Corporate Governance
- Risk Management
- Data Analytics
- Capital Integrity – alignment of programs to deliver organisation strategies
- Project Governance & Management
- Strategy Design & Implementation
- Performance Improvement & Process Re-engineering
- Execution Workforce Advisory services

In preparing this publication, we have relied upon the following key sources of information, including: Standard & Poor's Capital IQ, the Australian Securities Exchange, The Department of Health: Aged Care Service List - Australia, MergerMarket, IBISWorld, company announcements and other publicly available information. We have considered transactions during the period between calendar years 2008 to 31 October 2014 where the target company's primary operations are classified by S&P Capital IQ to be within Assisted Living Facilities and Services ; Healthcare Facilities; or Nursing Home industries and where the target company's primary operations are in Australia and the acquirer gained control of the company.

Our analysis is based on the assumption that the information derived from the different sources mentioned above are correct and that no material information is missing. Whilst all reasonable actions have been observed to ensure that the information in this report is not false or misleading, Grant Thornton does not accept any liability for damage incurred as a result of facts or deficiencies in this report. Conclusions and judgements reflect our assessment at the time of the publications completion.

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