Radius Residential Care Limited
Results for the 6 months to 30 September 2021

Brien Cree: Thank you, and good morning everyone. My name is Brien Cree, and I'm the Executive Chair and Managing Director of Radius Residential Care. Earlier today, we released the results for the six months to 30 September 2021 to the NZX. Included in the pack was a set of slides, which we'll be using for this briefing.

On the call today with me is Michelle Slabber, our General Manager of Finance, and Tim Sumner, a Radius Care director is also on the line to assist with any finance questions.

Radius listed on the NZX in December last year so this is our first half-year result as a listed company. Radius Care's performance in the half was notable from both a strategic and operational perspective. Strategically, we delivered on Radius Care's acquisitive growth pipeline with the purchase of four properties where we previously leased the facilities. Just after the end of the half year, we bought Clare House, a care facility and retirement village in Invercargill, extending our footprint further south. And we exercise the option to buy land at Northwood, a 4.3 hectare Greenwood development in Christchurch.

Operationally, we've kept our residents safe with seven of our 23 sites having been on Level 4 lockdown, with some for over 100 days. This has been a phenomenal achievement, and I pay tribute to our team for their dedication and tenacity. And we have delivered a strong performance, despite having supply chain and labour pressures.

Slide 4 Let's look at these points in more detail. Radius Care provides specialist aged-care services to some of New Zealand's most vulnerable elderly. Clare House in Invercargill takes our portfolio to 23 facilities with over 1,780 beds and 101 independent living units. Our current land bank includes almost 200 more care beds and 166 more units. Delivery on all these opportunities is fully budgeted and will be delivered progressively over the next three years.

Slide 5 Our portfolio of facilities now spreads across New Zealand from Paihia to Invercargill. Further detail of each property is set out in Appendix 7. Due to the significant increase in projected demand, there is still considerable opportunity for Radius Care to continue to acquire existing facilities and undertake greenfield developments. We will talk more about the growth opportunities later in the briefing. Our staff numbers have increased by around 100 since 31 March with the acquisition of Clare House and now stand at just over 1,600.

Slide 8 Having set the scene, let's look at the result in more detail. The Ohaupo transaction saw us buy the land and buildings of four sites we've leased for many years. We raised 48 million from existing and new investors, with just over 31 million of this going to the Ohaupo vendors, 8 million to debt repayment, and 6 million cash retained for further growth.

This transaction further added to our brownfield development pipeline. It now stands at 194 beds and 166 retirement village units. These additions come with no additional land cost, and by owning the land and buildings, there's a reduction in lease cost driving a double benefit.

We exercise the option to acquire 4.3 hectares of land at Belfast in Christchurch for a greenfield development. We will settle that transaction in the first half of the next financial year, and the development will add 70 care beds, 30 care suites, and 94 retirement village units. Occupation rights for the retirement village will go on sale in mid-2023.

Clare House was acquired after the end of the half for 14.5 million. It adds 69 care beds, 25 existing units, and space for two additional units. It also gives us spare land for expansion. The purchase was debt funded from the 62 million facility negotiated with ASB.

Operationally, our residents have been protected from COVID-19, and this will continue to be our highest priority. This is an area in which we've clearly demonstrated our industry leadership. Having been the first care home provider to lock down facilities in March last year, we have again led the industry by allowing family members to visit at all our facilities, including those in areas with the highest level of lockdown, provided all appropriate safety measures are in place. It was obvious that the mental health of our residents was suffering as a result of not being able to physically engage with their families and friends. So we did the right thing, and other aged-care home providers quickly followed.

We are also the clear industry leader in specialist care offerings. All of our facilities offer care to high acuity residents, and we intentionally ensure there is high flexibility in the of beds on offer. 97% of the beds in our facilities are certified for high acuity residents, compared with an industry average of just 53%.

Our bed occupancy statistics are amongst the strongest in the industry. And again Radius Care's performance is well above sector averages in this area.

The revenue Radius derives from its residents paying an accommodation supplement for extra amenities, such as larger room, en suite, and/or a view, has increased from 2.2% of total revenue five years ago to 4.7% now. And there is considerable potential for that contribution to grow further.

Revenue for the half year was up 8%, and I'm really pleased to see accommodation supplement revenue was up 16% to 3.1 million. Available funds from operations or AFFO, which is a measure of surplus cash, was consistent with the prior period. Earnings Before Interest, Tax, Depreciation, and Amortisation was down largely due to labour market dynamics, with closed borders and high demand for staff. Underlying EBITDA per bed was consistent with the prior period. Net assets grew

The Board's view of the half-year performance and the outlook for the second half has led to it deciding to pay an increased half-year dividend. At a gross rate of 0.7 cents per share, it's up 20% on the previous half-year dividend that was paid in February. Full imputation credits will be attached.

Looking at the performance against prior years shows that while revenue growth was strong, the EBITDA performance was below that achieved last year, but up against the first half of FY 20. Revenue was up with growth and occupancy, bed rates, and accommodation supplements. Increased occupancy had a corresponding increase in clinical hours. Revenue growth was offset by increasing labour rates and availability. Wage pressure is alive and well in New Zealand, in the New Zealand economy. And while we were very pleased to see an additional 300 MIQ places being made available each month for the health sector, this will ease rather than solve the problem.

The waterfall chart gives you a good sense of the moving parts of the business in the first half in terms of revenue and expenses. Increased occupancy with higher average bed rates and improved accommodation supplements drove revenue up. Labour costs, including staffing and bureau costs, were the largest single area of cost increase for us. Other costs were up 1.3 million and include marketing, IT, consultants, and insurance.

Radius Care's dividend policy is to target a payout ratio of 50% to 70% of the full financial-year AFFO with each dividend being approximately half of the expected full-year dividend. The Board has declared a fully imputed half-year gross dividend of 0.7 cents per share. This signals a dividend for the full year, which is likely to be in line with last year's gross fully-imputed payment of 1.46 cents per share.

Of the 66.3 million revenue for the half, 63.8 million was earned from the aged-care segment. Revenue in the business continues to grow consistent with the historical trend. The government payment that we receive per bed increased an average of 7%, to around $219 per care bed per day. Direct private revenue was $5.4 million, which included accommodation supplements of 3.1 million.

Around 87% of Radius Care's beds are certified by the Ministry of Health for high acuity. This compares with an industry average of 53%. For the half year, 68% of beds were used for high acuity care and the balance for rest-home-level care. Compared with other listed aged-care providers, Radius has the largest number of specialist beds per facility.

The fundamentals of the aged-care sector are strong and make for a compelling long-term investment proposition. Put simply, long-term forecasts of the proportion of the New Zealand population in the 65 to 85 age group and the 85 plus show continued growth. Hospital, rest home, and specialist care bed day forecasts also show an expectation of continued and steady annual increases.

For the six months to the end of September, Radius Care's average bed occupancy rate was 93%, well ahead of the industry average and ahead of the prior period. Of our 22 facilities at the end of September, nine operated at 95% plus occupancy for the half, and eight operated at 90 to 95% occupancy.

The continued growth in accommodation supplements per care bed is a key driver of Radius value proposition. For the half year, residents paid an average of $1,839 for additional amenities such as a larger room or an en suite. That is an annualised rate of $3,678, which is 11.5% higher than the $3,300 paid for the FY 21 year.

Wages represent Radius Care's single largest cost. For the half year, wages were slightly higher for the comparative period, on the back of minimum wage increases and registered nurse increases. The increase in staff numbers from 1500 to 1600 relates to the Clare House acquisition, just after the 30th of September. Overall, average underlying EBITDA per care bed was consistent for the half year at 10,300 compared with 10,700 for the comparative period.

Radius Care strategy has four pillars: brownfield developments, acquisition of strategically important leased facilities, greenfield developments, and opportunistic value-accretive acquisitions. Our business purpose is focused and deliberate, and this was demonstrated in the first half with the growth programme clearly aligned with the four pillars.

The Ohaupo transaction saw us acquire strategically important leased facilities, which also offered brownfield development opportunities. We exercised an option to acquire the Northwood site in Christchurch for a greenfield development. Settlement of this purchase will take place in the first half of the next financial year with site work then able to start. The Clare House facility was acquired on 1 November. It's value accretive from day one.

The Radius Care Board sees the company as being in a growth phase. Significant growth was achieved during the half, and the company's strong operating systems, IT, and management team capability are well placed to support investment in further facilities. Our strategy is clear and simple, and most importantly, we're delivering on it.

So how do we see the second half playing out? Protecting our residents from COVID-19 will continue to be our highest priority. A hundred percent of staff are vaccinated. Vaccination rates among residents is running at 97%, and both staff and residents are keen to get their third jab as soon as they can.

Average occupancy levels are high, and we expect them to be consistent with the levels we saw in the second half of FY 21. While the border stays closed, we can expect continuing wage pressure. Accommodations supplement revenue will continue to grow. We are preparing for developments to be undertaken at several sites to expand the care bed and unit portfolio. Clare House will be fully integrated into our portfolio by the end of the financial year. The overall impact of these factors on expected financial performance for the 12 months to 31 March 2022 is that the Board is providing guidance for underlying EBITDA of 21.5 to 23 million, an AFFO of 4 million to 5 million. On a proforma basis, which includes a full year contribution from acquisitions, underlying EBITDA is expected to be 22.4 million to 23.9 million, and AFFO 5.2 million to 6.2 million.

In summary, Radius Care gives investors a unique exposure to a high-acuity specialist care provider in a sector with strong long-term growth fundamentals. With almost 20 years experience in this industry, our day-to-day operations are supported by robust operations and systems. Demand for care beds is underpinned by population demographics. And with that demand comes increasing demand for additional services, paid for by the resident.

Radius Care is in a strong position in its well-placed continuous growth phase, which is guided by a clear and deliverable strategy.

I'd now like to open the call for questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speaker phone, please pick up the handset to ask your question. We will now pause a moment to allow questioners to join the queue.

There are no questions at this time. I'll now hand back to Brien for closing remarks.

Brien Cree: Thank you very much. We are available to answer any questions that may pop up after this call. But at this stage, with no questions, I will close the briefing. Thank you very much for participating.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.