



Investor Letter

HALF YEAR REPORT 2022

Radius Residential Care Ltd | www.radiuscare.co.nz

Radius Care at a Glance

LEVELS OF CARE



Rest Home



Hospital



Dementia



Young
Disabled



Respite



Palliative



1,780+ Beds



1,600+ Radius
Team Members

OUR PRESENCE

Auckland		Sites	Beds	ILUs	Total
	Leased	2	188	-	188
	Owned	1	60	-	60

Waikato		Sites	Beds	ILUs	Total
	Leased	3	258	-	258
	Owned	1	76	22	98

New Plymouth		Sites	Beds	ILUs	Total
	Owned	2	118	-	118

Northland		Sites	Beds	ILUs	Total
	Leased	3	155	-	155

Bay Of Plenty		Sites	Beds	ILUs	Total
	Leased	2	266	-	266
	Owned	1	63	-	63

Napier		Sites	Beds	ILUs	Total
	Leased	1	45	-	45

Palmerston North		Sites	Beds	ILUs	Total
	Leased	1	62	-	62

Invercargill		Sites	Beds	ILUs	Total
	Owned	1	69	25	94

Canterbury		Sites	Beds	ILUs	Total
	Leased	2	193	-	193
	Owned	2	138	54	192

Otago		Sites	Beds	ILUs	Total
	Leased	1	93	-	93

ILUs are independent living units

 Denotes Leasehold Site

 Denotes Freehold Site



Operational and Strategic Highlights

PURCHASES

Bought land and buildings for four facilities.



CAPITAL

Raised \$48.2 million capital from existing and new investors.



BANKING

Secured a \$62m debt facility with ASB.



DEVELOPMENT PIPELINE

Development pipeline grows to 194 care beds and 166 ILUs.



NORTHWOOD DEVELOPMENT

Exercised option to acquire Christchurch land to develop Northwood (Belfast) facility of 70 care beds and 124 ILUs.



CLARE HOUSE

Announced Clare House acquisition in Invercargill - adds 69 care beds, 25 ILUs.



Residents protected from COVID-19



Industry leader in Specialist Care Offerings



Occupancy outperforms Industry



Financial Overview

\$66.3m

Reported Revenue

Up from \$61.4m
in 1HY21

\$1.3m

Reported Profit After Tax

Down from \$2.1m
in 1H21

\$11.2m

Underlying EBITDA

Down from \$12.4m
in 1HY21

\$5.1m

Pre-NZ IFRS 16 Underlying EBITDA

Down from \$6m
on 1HY21

\$70.1m

Net Assets

Up from \$24.1m at
31 March 2021

7%

Bank Debt/ Total Assets

Down from 10%
at FY21

8.3%

Direct Private Revenue (non-government)

Down from 11%
at FY21

\$10.3k

Underlying EBITDA per Care Bed

Consistent with
\$10.7k at 1HY21

\$3.1m

Accommodation Supplements

Up from \$2.7m
at 1HY21

0.7cps

Gross Interim Dividend

Up from 0.58 cps at 1HY21. Targeting equivalent full year cents per share payment to last year.

\$2.3m

AFFO

Consistent with
\$2.4m at 1HY21



Message from Brien Cree

**EXECUTIVE CHAIRMAN AND
MANAGING DIRECTOR**



“COVID-19 creates a challenging operating environment for Radius. I am incredibly proud of how the staff responded and kept our residents safe. With the focus on safety I am pleased to report a consistent underlying EBITDA per bed return.”

Brien Cree

Looking back on the first half of the 2022 financial year, it's pleasing to report good progress with our key performance metrics: high care bed occupancy levels; increasing accommodation supplements, consistent EBITDA per care bed as well as strong progress against Radius Care's strategic pillars.

While operationally we continue to perform well, the six-month period has presented a range of challenges. Against a backdrop of the ever-present threat of a COVID-19 outbreak in a facility or its neighbourhood, we have seen rising costs across the business, particularly for labour and consumables. Some of these cost increases are directly attributable to COVID-19 related border restrictions affecting labour supply and other supply chain issues affecting consumable goods prices.

BUSINESS PERFORMANCE

Occupancy levels have remained above historic levels. Average occupancy for the six-months ended slightly higher than the 91.6% recorded in the prior comparative period. Facilities operating at 100% for periods of time is becoming increasingly common for us.

Direct private revenue earned for the half year was \$5.4 million, a decrease of \$0.8 million from the prior period. This revenue stream represents payment by residents for services not covered by Government payments, sales and resales of independent living units (ILUs), revenue from the Radius online shop and other privately paid revenues. Accommodation supplement revenue grew by 16% to \$3.1m. This is revenue that is paid by residents

for additional room amenities such as a larger room, an ensuite or a view.

Underlying EBITDA per care bed was \$10,313 consistent with \$10,671 for the prior period.

Wage costs represent the single largest cost item for Radius and accounted for 54.3% of revenue for the period compared with 53.2% for the prior period. The Government's recent announcement of 300 MIQ rooms being allocated each month to health and disability sector workers is welcomed. This will go some way to addressing the growing skills shortage our sector experiences on a daily basis.

PROPERTY PURCHASES AND DEVELOPMENT

The acquisition of the land and buildings of four facilities previously owned by Ohaupo Holdings Limited and leased by Radius Care was settled on 5 August, contributing a reduction in lease costs for the period of \$0.4 million. The benefit for FY22 will be \$1.4 million and \$2.2 million on an annual basis.

The acquisition of Clare House in Invercargill just after the end of the six-month period will add \$0.6m in pre-NZ IFRS 16 Underlying EBITDA in FY22 and \$1.5m on a pro forma (annualised) basis including resale gains of \$0.3m. AFFO* of \$0.4m is forecast for FY22, \$1.2m on a pro forma (annualised) basis.

Brownfields developments are under way or planned to start in the current year at four facilities. At Taupaki Gables at Kumeū and Windsor Court at Ohaupo, properties which we bought in early August, an additional 20 care beds will be added at each facility. Planning for Taupaki Gables is well under way with initial works expected to start in May 2022. Completion is expected by June 2023 at a total budgeted cost of \$5.2m which will fall into the FY23/ FY24 financial years. Construction work will start at Thornleigh Park to add 20 additional Care Beds. Planning for the expansion of Windsor Court is underway. A resource consent application will be lodged for Lexham Park in the second half of FY22.

Northwood, a greenfields development on 4.3ha at Belfast, Christchurch, is expected to settle in the first half of FY23 at a cost of \$5.5 million. Planned to open in June 2024, the facility will offer 70 Care Beds, 30 Care Suites and 94

Retirement Village Units. Occupation rights for the retirement village will go on sale in mid 2023.

FINANCIAL POSITION

Some \$48.2 million of new capital was raised during the period of which \$31.4m was used to settle the Ohaupo acquisitions, around \$8m was applied to debt reduction and \$6.3m of cash available for investment in growth.

A \$62m new funding facility has been negotiated with ASB. The Clare House purchase was settled on 1 November. The 4.3ha Northwood property in Belfast, Christchurch, is expected to settle in the first half of FY23 at a price of \$5.5 million. As at 30 September the ASB facility was drawn to \$18.7m, and \$6.7m was held in cash on hand.

GOVERNMENT FUNDING AND HEALTH SECTOR POLICY CHANGE

Government payments for care beds are renegotiated annually but separately by each DHB. An average 7% funding increase has been agreed and is effective from 1 July 2021.

The Government's announcement that it will abolish all 20 District Health Boards and create a single health organisation is welcomed. New Zealand's aged care funding model requires Radius Care to enter separate contracts with each DHB. Little information is as yet available as to when the new system will be operational, replacing the current fragmented system, however Radius Care looks forward to receiving the benefits of a single set of funding negotiations.

COVID-19

From an operational perspective the period has been notable for the recurrence of COVID-19 in the Auckland community in mid-August, causing a lift to alert level 4 across New Zealand, after we had enjoyed several months at lower alert levels. As a result we have had seven of our facilities operating at the highest alert level. The safety of our residents and staff is of the highest priority for Radius Care and I am pleased to say that we have had no instances of COVID-19 in any of our facilities or staff members' families. The double vaccination

*AFFO is a non-GAAP estimate of cash generated. It is the financial metric on which Radius Care's dividend policy is based.



rate is high due to the awareness of our residents and our staff as to how important it is to protect yourself and others.

In March 2020, as cases of COVID-19 started to be identified in New Zealand, I took the decision to put our facilities in to lockdown ahead of the New Zealand Government's moves to do so. In late October 2021, just after the end of the half year and with the Auckland and Northland regions at alert level 4, subsequently joined by the Waikato, we determined that our residents' mental health was suffering by not being able to have family visit. We therefore announced a change to our visitor policy allowing visitors who are double-vaccinated and meet certain other conditions to visit our facilities by appointment. We are pleased to see others in the aged care industry also adopt similar policies.

DIVIDEND

A gross dividend of 0.7 cents per share has been declared for the half year. The fully imputed dividend will be paid on 23 December 2021. The dividend payout for the first half represents 60% of forecast reported FY22 AFFO, in line with the policy to target a pay-out ratio of 50% to 70% of AFFO, with each dividend comprising approximately half of the expected full year dividend. The dividend level was supported by the strong growth in pro forma AFFO and, while 20% higher than the prior year, a similar rate for the full year is targeted.

FY22 SECOND HALF INITIATIVES

The second half of the year will see us seeking to finalise the appointment of our Chief Executive following the resignation of Stuart Bilbrough in August.

We will also continue with our programme of preparing for the introduction of climate change reporting. Workstreams are under way to ensure we are well placed to measure and report in line with the standards, once introduced.

Occupancy is expected to be consistent with 2HY21 average levels. Lease costs will be lower compared with the second half of last financial year, reflecting our ownership of four facilities. Adverse labour market conditions are expected to continue into the second half.

OUTLOOK

As reported at the 2021 annual meeting in September, Radius Care is in good shape. Financially, COVID-19 continues to present a significant challenge for us with a proportion of the additional costs of operating an essential service unable to be recovered from income set under annual negotiations with the Government.

The Radius Care board expects underlying EBITDA of \$21.5m-\$23.0m for the full year, slightly lower than the \$23.4m earned in FY21, and AFFO of \$4.0m-\$5.0m compared with FY21's \$3.7m. On a pro forma basis underlying EBITDA of \$22.4m-\$23.9m and AFFO of \$5.2m-\$6.2m.

Radius Care gives investors a unique exposure to a high acuity, specialised 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. The need for care beds will continue to increase, underpinned by population demographics, and with that need comes increasing demand for additional services, paid for by the resident. These dynamics place Radius Care in a strong position and well placed to continue our growth phase which is guided by a clear and deliverable strategy.

A THANK YOU TO OUR STAFF

The COVID-19 pandemic has presented significant challenges to our frontline staff and those who support them across New Zealand. They do a tremendous job every day keeping our residents safe. The Board of Directors extends a heart-felt thank you to each and every member of the Radius Care team for their commitment and dedication over the last six months. Your contribution is very much appreciated.

Thank you.

Brien Cree

Executive Chairman and Managing Director



Financial Highlights

\$M	1HY22 UNAUDITED	1HY21 UNAUDITED
Total revenue and other income	66.3	61.4
Underlying EBITDA	11.2	12.4
Pre-NZ IFRS 16 Underlying EBITDA	5.1	6.0
Pre-NZ IFRS 16 Underlying NPAT	2.0	1.9
AFFO	2.3	2.4
Total assets	271.6	273.4

Underlying EBITDA to AFFO Reconciliation

\$M	1HY22 UNAUDITED	1HY21 UNAUDITED
Underlying EBITDA	11.2	12.4
Include: Pre-NZ IFRS 16 operating lease expense	(6.1)	(6.4)
Pre-NZ IFRS 16 Underlying EBITDA	5.1	6.0
Include: Depreciation and amortisation (Pre-NZ IFRS 16)	(2.2)	(2.1)
Include: Net interest expense (Pre-NZ IFRS 16)	(0.4)	(0.4)
Include: Current tax expense	(0.3)	(1.7)
Include: Income tax impact from adjustments	(0.2)	0.1
Pre-NZ IFRS 16 Underlying NPAT	2.0	1.9
Remove: Depreciation and amortisation (Pre-NZ IFRS 16)	2.2	2.1
Include: Maintenance capital expenditure	(1.9)	(1.6)
AFFO	2.3	2.4



Statement of Comprehensive Income

\$'000	1HY22 UNAUDITED	1HY21 UNAUDITED
REVENUE		
Revenue from contracts with customers	64,458	59,471
Deferred management fees	449	389
Total revenue	64,907	59,860
Fair value movement of investment properties	(65)	716
Government subsidy received	-	794
Interest income	32	30
Gain on acquisition of leased property assets	1,403	-
Total revenue and other income	66,277	61,400
EXPENSES		
Employee costs	(39,292)	(35,645)
Depreciation expense	(5,746)	(5,728)
Finance costs	(4,590)	(4,998)
Other expenses	(14,987)	(12,406)
Total expenses	(64,615)	(58,777)
Profit before income tax	1,662	2,623
Income tax expense	(328)	(558)
Profit for the period	1,334	2,065
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Total comprehensive income	1,334	2,065



Statement of Financial Position

\$'000

1HY22
Unaudited

FY21
Audited

ASSETS

Cash and cash equivalents	6,741	2,761
Trade and other receivables	10,502	7,744
Inventories	629	548
Investment properties	31,773	31,675
Property, plant and equipment	64,247	32,896
Right-of-use assets	137,038	177,170
Intangible assets	16,996	16,996
Deferred tax assets	3,636	3,635
Total assets	271,562	273,425

LIABILITIES

Trade and other payables	15,230	14,911
Current tax liabilities	197	1,135
Borrowings	18,712	27,212
Deferred management fee	1,399	1,178
Refundable occupation right agreements	21,534	20,591
Lease liabilities	144,366	184,305
Total liabilities	201,438	249,332

Net assets

70,124 **24,093**

EQUITY

Share capital	51,757	5,932
Asset revaluation reserve	6,812	6,812
Retained earnings	11,555	11,349
Total equity	70,124	24,093



Statement of Cash Flows

\$'000	1HY22 Unaudited	1HY21 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from residents for care fees and village fees	62,670	60,788
Receipts of Government subsidy	-	353
Payments to suppliers and employees	(54,899)	(48,875)
Proceeds from the sale of Refundable Occupation Right Agreements	1,610	1,656
Settlement of Refundable Occupation Right Agreements	-	(290)
Interest received	32	30
Interest paid - borrowings	(421)	(468)
Interest paid - lease liabilities	(4,169)	(4,530)
Income tax paid	(1,268)	(1,351)
Net cash provided by operating activities	3,555	7,313
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of property, plant and equipment	47	-
Payments for the purchase of property, plant and equipment	(33,771)	(1,451)
Payments for village developments	(98)	(841)
Net cash used in investing activities	(33,822)	(2,292)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gross proceeds from issue of shares	48,229	-
Repayment of bank borrowings	(8,500)	(839)
Repayment of lease liabilities	(1,950)	(1,871)
Share issue costs	(2,404)	-
Dividends paid	(1,128)	-
Net cash provided by /(used in) financing activities	34,247	(2,710)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of the period	2,761	2,317
Net increase in cash held	3,980	2,311
Cash and cash equivalents at end of the period	6,741	4,628

The unaudited financial statements for Radius Residential Care Limited for the six months to 30 September 2021 are available at Results and Reports on radiuscare.co.nz/investors-centre/



Caring is our calling

Radius Residential Care

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