



**APOLLO CARE**  
ALLIANCE

## **Strategic Adaptation for Hellenic Community of WA**

*July 2020*

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**Over the last 5 years, your net surplus has steadily declined, though RAD balances have held**

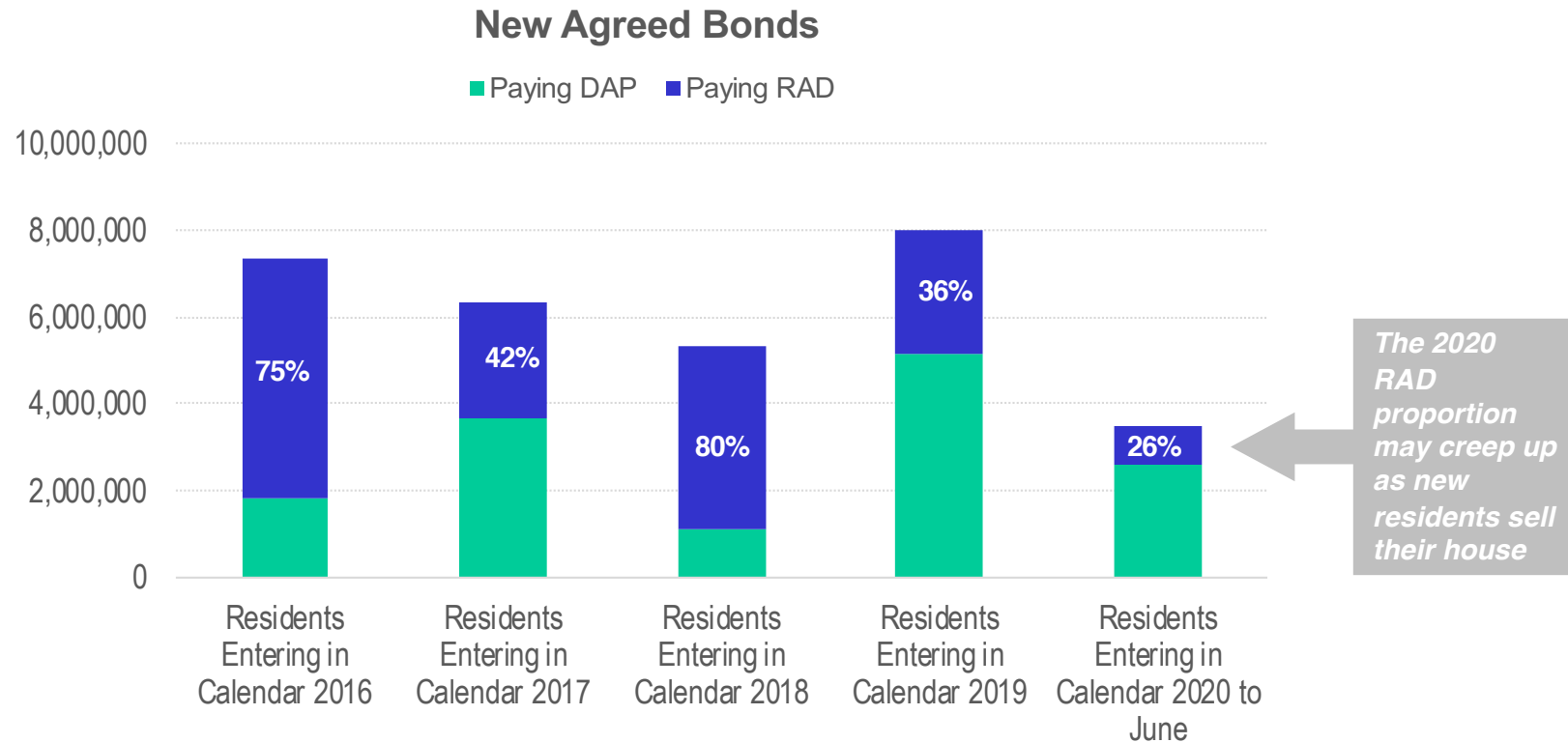
	<b>FY16 Actual</b>	<b>FY17 Actual</b>	<b>FY18 Actual</b>	<b>FY19 Actual</b>	<b>YTD May 20 Annualised</b>
No. Beds	96	96	96	96	96
Agreed Bonds					\$20,835,464
Proportion paid as Cash RADs					61.0%
<b>RADs/Bonds at End FY</b>	<b>\$10,122,499</b>	<b>\$11,708,288</b>	<b>\$12,753,959</b>	<b>\$12,452,693</b>	<b>\$12,709,633</b>
DAPs at end FY					\$8,125,831
<b>Net Surplus as Reported</b>	<b>\$561,476</b>	<b>\$199,317</b>	<b>\$55,848</b>	<b>\$3,205</b>	<b>(\$352,547)</b>
<b>Addbacks</b>					
Rent	\$98,916	\$152,301	\$167,451	\$168,853	\$180,000
Depreciation	\$481,337	\$494,638	\$497,223	\$500,173	\$504,261
<b>Annual EBITDAR</b>	<b>\$1,141,729</b>	<b>\$846,256</b>	<b>\$720,522</b>	<b>\$672,231</b>	<b>\$331,714</b>
<i>Per Bed</i>	<i>\$11,893</i>	<i>\$8,815</i>	<i>\$7,505</i>	<i>\$7,002</i>	<i>\$3,455</i>

## However, the future is not looking so good

### CURRENT TRENDS AFFECTING OUTLOOK

- Residents are now preferring to pay DAPs vs RADs. Historically, about 60-61% of residents paid RADs. Now only 36% of your new residents are paying RADs. This means that your RAD deposits will contract (to about \$7.5M on current trends from \$12.7M currently)
- The MPIR (the interest rate on which DAPs are calculated) has fallen to 4.1% from 6% recently. This severely impacts the DAP income – a contraction of over 30%
- New local competition is putting pressure on you to refurbish and expand. However, you have not been reinvesting your depreciation
- ACFI indexation continues to fall short of wages growth by about 2%, continuing the pressure on EBITDA

**Increasingly, new residents are paying DAPs rather than RADs. This will shrink the total RAD deposits (currently \$12.7M), to about \$7.5M.**

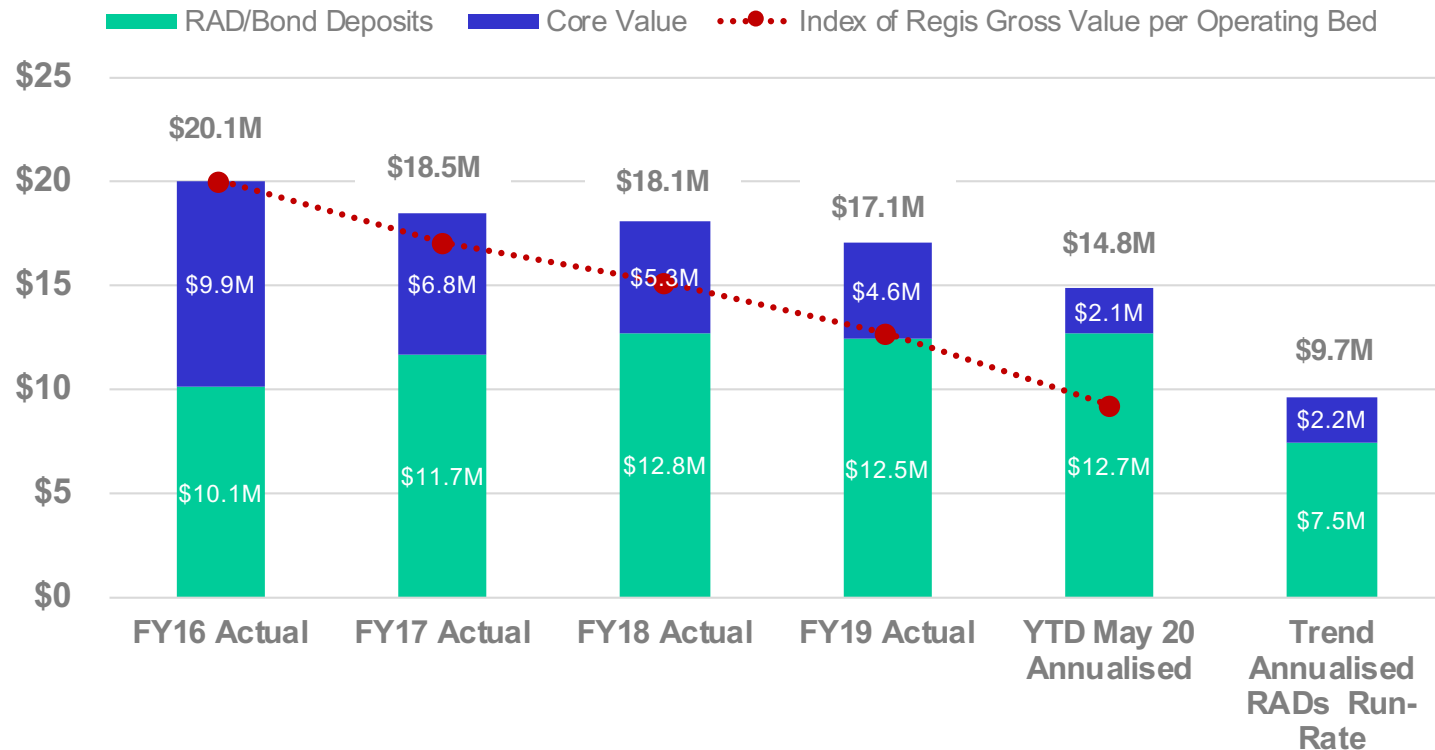


**Even with the higher DAP balance, you will do well to hold EBITDA constant. But RAD balances will reduce by over \$5M.**

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Actual	YTD May 20 Annualised	Trend Annualised RADs Run-Rate
No. Beds	96	96	96	96	96	96
Agreed Bonds					\$20,835,464	\$20,835,464
Proportion paid as Cash RADs					61.0%	36.0%
RADs/Bonds at End FY	\$10,122,499	\$11,708,288	\$12,753,959	\$12,452,693	\$12,709,633	\$7,500,767
DAPs at end FY					\$8,125,831	\$13,334,697
Net Surplus as Reported	\$561,476	\$199,317	\$55,848	\$3,205	(\$352,547)	(\$352,547)
<u>Addbacks</u>						
Rent	\$98,916	\$152,301	\$167,451	\$168,853	\$180,000	\$180,000
Depreciation	\$481,337	\$494,638	\$497,223	\$500,173	\$504,261	\$508,000
Adjustments to Trend						
2% Under-indexation of ACFI						(\$96,000)
Current DAPs @ MPIR of 5.5%						(\$446,921)
New DAPs @ MPIR of 4.1%						\$546,723
<b>Annual EBITDAR</b>	<b>\$1,141,729</b>	<b>\$846,256</b>	<b>\$720,522</b>	<b>\$672,231</b>	<b>\$331,714</b>	<b>\$339,255</b>
<i>Per Bed</i>	\$11,893	\$8,815	\$7,505	\$7,002	\$3,455	\$3,534

# Calculating the impact on the value of the Hellenic aged care business, this means a drop of 28% to FY20 and then further beyond that

**Calculated Gross Value (Core Value + RADs/Bonds)**



Assumptions:

- 1: Gross Value = Core Value (EBITDA capitalized) plus RADs/Bonds
- 2: Cap rate on EBITDA rises from 11.5% in FY16 to 15.5% in FY20 and beyond (reflecting what has happened to the listed providers)



## How can you safeguard your mission and legacy?

### ALTERNATIVES

1. Stay as-is (risking marginalisation as competitors grow and consumers exercise choice), selectively borrowing for improvements (adding financial risks); or
2. Sell or merge with larger operator (reducing/losing community profile and possibly risking unique social mission); or

NEW

3. Apollo Care: strategic adaptation, by selling down RAC assets to an approved provider that keeps the Hellenic branding and manages to your mission & values



## The Apollo Care alternative: a specialist RAC owner-manager to sustain your community mission

### *In Australian Aged Care, Apollo Care's capability is unique*

- Apollo Care is a holding structure with conviction/institutional investors that acquires RAC assets
- Apollo Care is Approved Provider, managing quality standards, clinical compliance, RADs, IT/administration - taking on all Aged Care Act responsibilities
- We keep Hellenic brand. No impact on PBI status
- Investors provide the funding for refurbishment and expansion
- To safeguard adherence to your mission & values, you participate in a Community Advisory Board

## Summary of our Commercial offer

### WE PROPOSE THAT....

- Apollo Care acquires the Hellenic aged care business and operates RAC as Approved Provider
- You retain land ownership and lease to Apollo Care for 49 years plus options
- We acquire buildings, equipment, bed licences, and liability for the RADs
- Apollo Care continues the PBI Hellenic Community Benevolent Association with an adapted constitution that retains the Hellenic values
- You nominate a representative to our Community Advisory Board
- You hold a strategic shareholding in Apollo Care

### COMMERCIAL CONSIDERATION

Gross Price for business and buildings	\$12.0M	<i>Firm</i>
Cash and Investments held by HCBA	\$14.7M	<i>As of end May</i>
RAD/Bond liability adopted by Apollo Care	(\$12.7M)	<i>Firm</i>
Employee liability adopted by Apollo Care	(\$0.8M)	<i>Actual figure at completion</i>
<b>Net cash balance transferred to HCWA</b>	<b>\$13.2M</b>	

- Land lease is \$50K per year, with CPI adjustments
- Of the cash balance, you invest \$1M to acquire Operator “Class O” shares in Apollo Care at current valuation

## Impact of our commercial offer

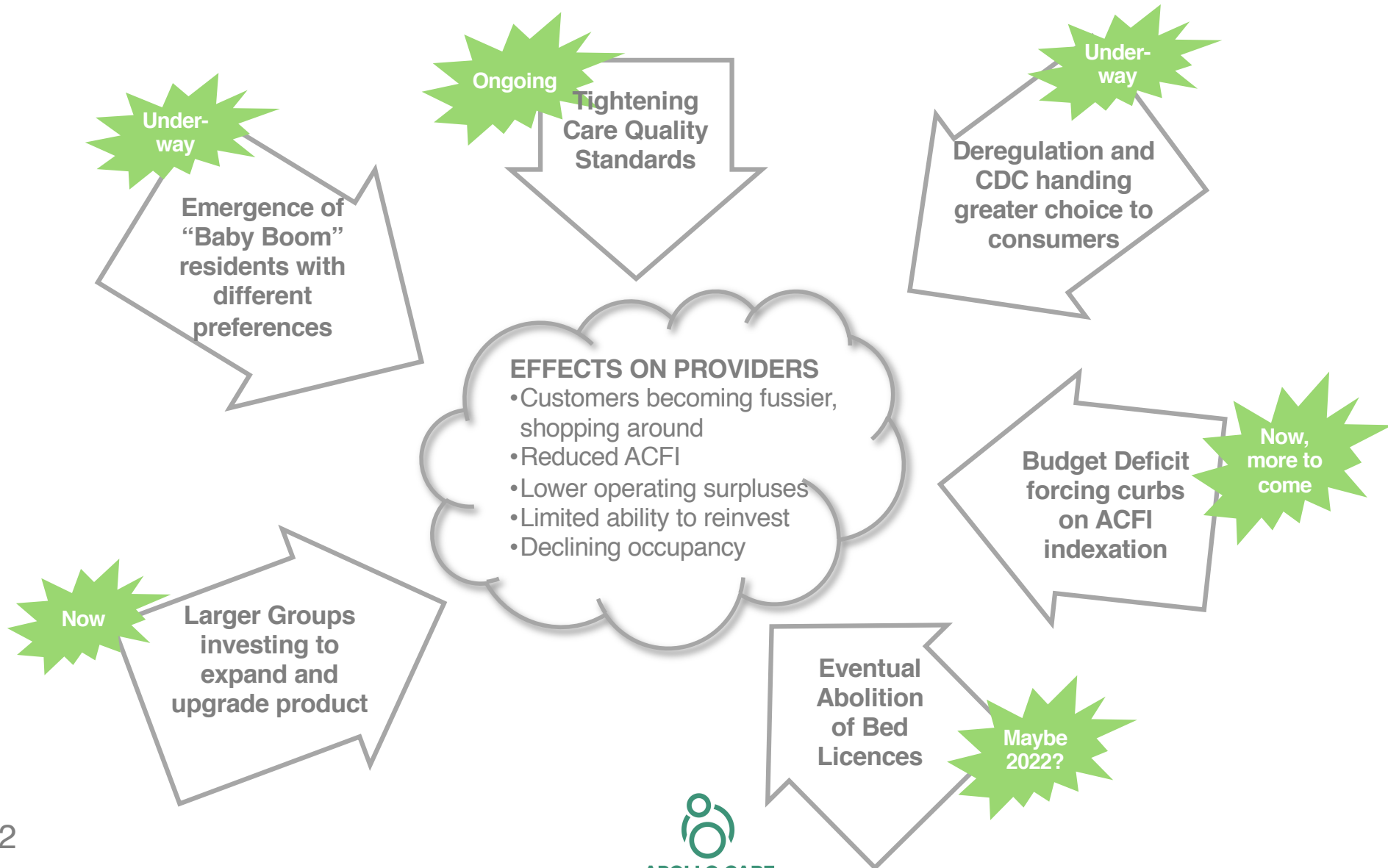
	Continue as Today	Apollo Care	Sell to 3 <sup>rd</sup> Party
<b>Brand of Service</b>	Hellenic Community	Hellenic Community	3 <sup>rd</sup> Party
<b>Aged Care Act responsibility</b>	Hellenic CWA	Apollo Care	3 <sup>rd</sup> Party
<b>Land Ownership</b>	Hellenic CWA	Hellenic CWA	3 <sup>rd</sup> Party
<b>Free cash position</b>	Have to fund bond outflow (possibly \$5M)	Keep cash of \$13M. No funding of outflow	Keep cash of ~\$13M (depending on commercial offer)
<b>Funding of upgrades/ refurbishments</b>	By Hellenic	By Apollo Care	3 <sup>rd</sup> Party
<b>Annual income to HCWA</b>	Rent of \$180K for buildings and land, less trading losses	Rent \$50K for land plus dividends of about \$60K	None

*As noted in prior discussions, Apollo Care wishes to partner with you to further develop the St Andrews precinct for various purposes including Retirement Living and Supported Living. We would manage them for you and deliver services to residents on an ongoing basis.*

**These market conditions are a consequence of Aged Care reform. Reform has been about competition between providers, so consumers can exercise choice**

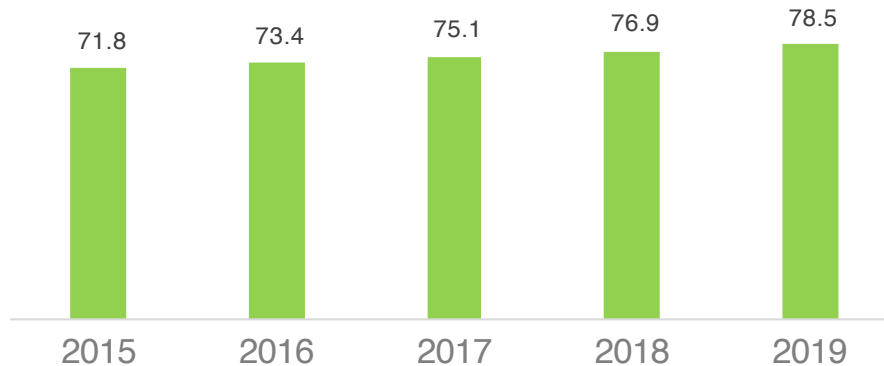
<b>GENESIS</b>	2011 <b>Productivity Commission</b> recommendations to improve the <b>accessibility</b> and <b>sustainability</b> of aged care services
<b>USER PAYS</b>	Core imperative is to limit <b>government expenditures</b> whilst ensuring <b>accessibility</b> for all, meaning that users with means have to <b>pay</b>
<b>CONSUMER CHOICE</b>	Encourages the industry to <b>differentiate</b> its service offerings to make them more attractive to customers, and thus happy to pay
<b>IMPLEMENTATION</b>	2012 - Living Longer Living Better - introduced <b>user contributions</b> to care (means tested fees) and accommodation payments (bonds), allowing individuals' choice of <b>funding arrangements</b> (RADs or DAPs)
<b>INDUSTRY RESPONSE</b>	Providers with ready access to <b>capital</b> have been investing aggressively in refurbishments and expansions to capture better RADs & DAPs
<b>GOVERNMENT POLICY</b>	Continues to move from a supply driven regulated model to a <b>consumer driven</b> model based on <b>competition</b> . Simultaneously, scrutiny of care quality is tightening.
<b>WINNERS AND LOSERS</b>	<b>Differentiation</b> is occurring across <b>quality</b> (accommodation, care and services) and <b>price</b> . Consumers are becoming fussier, shopping around and exercising <b>choice</b> . Some providers are winning; many providers are struggling to fill beds and remain profitable

# Freer competition and tightening care standards are now creating a “perfect storm” for smaller providers

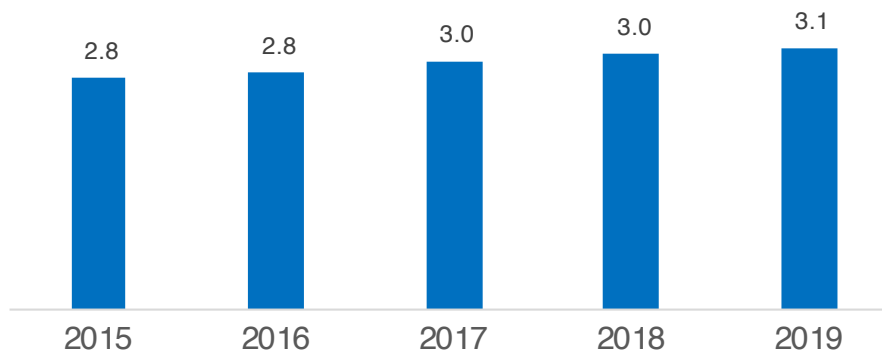


## The industry is consolidating into larger provider groups\*

Average Facility Size, beds



Average no. Facilities per Provider

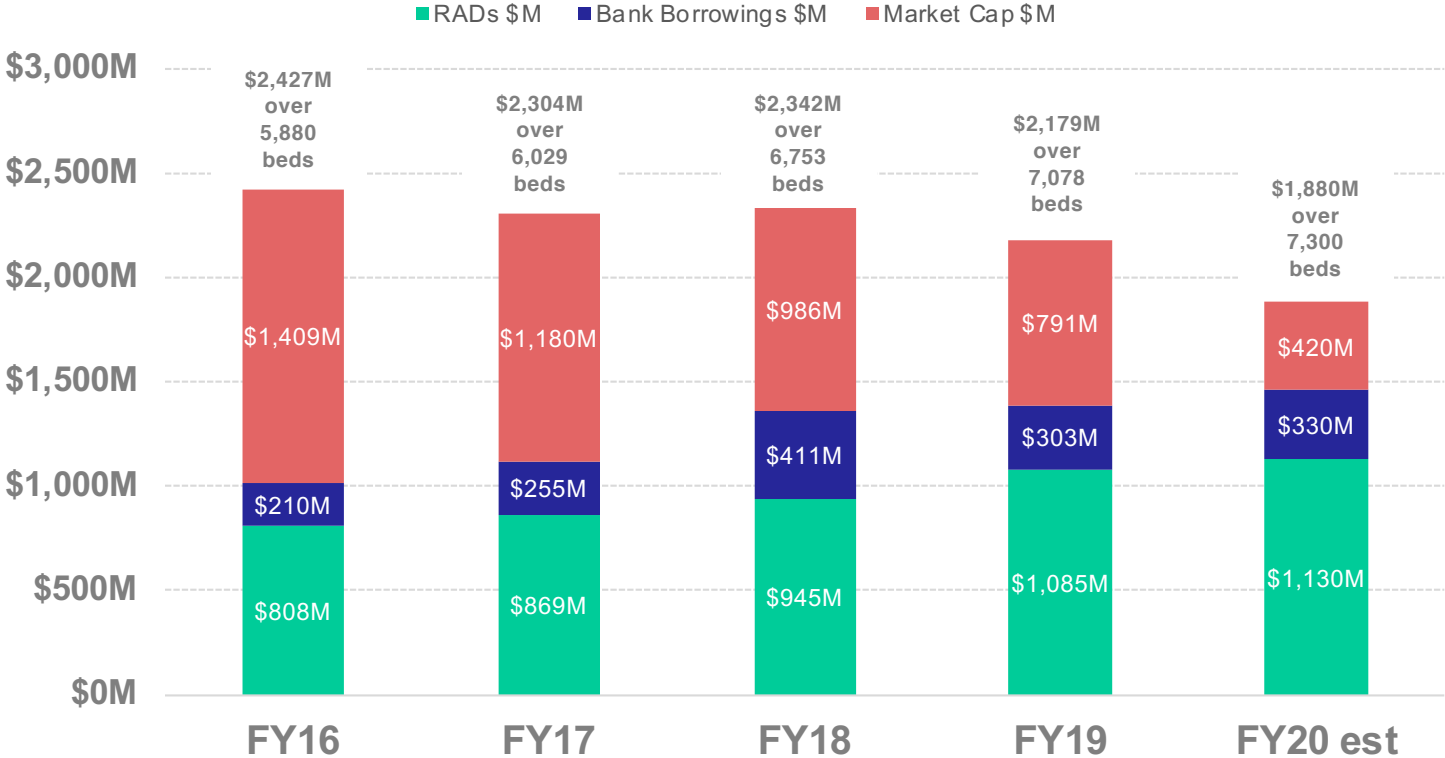


- Facilities becoming larger, and provider groups owning more facilities
- This consolidation may not be occurring as fast as the Government would like (hence e.g. the continued pressure on ACFI)
- With all the current pressures on the Federal Budget, we suggest it is unlikely that the government will boost funding for the sector

\*Source: Aged Care Funding Authority, 2020

These pressures affect every provider. Like all the listed majors, Regis' value has been dropping even though it has been growing.

Valuation of Regis (REG)



**38% Reduction in Value per Bed**

Over this period, the EBITDA/Business value yield (implied cap rate) has increased by over 5%. This is probably occurring because investors see the industry as risky (government funding squeeze, Royal Commission, risk of bond outflow)



## How Apollo Care operates

### EXAMPLE ELEMENTS OF OUR MANAGEMENT APPROACH

- Using industry “A” team specialists and advisers
- Installing fully contemporary Care management systems, financial management, IT services
- Using culture, not hierarchy, to manage Care quality and standards. We provide critical Care Governance expertise for staff
- Partnering with NFPs to maintain and manifest core Community and Faith values
- Refurbishing facility to upgrade amenity and decor
- Charging higher RADs/DAPs for residents with means, and for low-means residents ensuring maximum recovery of Supplements



## Next steps & timeline to complete

*Our commercial offer is a firm \$12M, but the bond adjustment is also a firm figure of \$12.7M being the RAD balance at the end of May. If RADs decline further this will reduce the cash balance that Hellenic Community of WA will retain*

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### KEY DATES

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Phase	Activity	Date - on or before
1	Tentative Agreement accepted by HCWA	Done
2	Indicative Offer and Nonbinding Heads of Agreement prepared	This discussion
	HOA executed	31 <sup>st</sup> July
3	Execute contract after further due diligence	30 <sup>th</sup> August
	HCWA special General Meeting approval	30 <sup>th</sup> September
4	Dept of Health approval	30 <sup>th</sup> November
5	Settlement of contract	21 <sup>st</sup> December 2020

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## A Testimonial

*On Apollo Care's recent acquisition of a Christian Brothers facility in Sydney*

“I have been impressed with the way we have worked together since meeting you last year, with your listening and understanding of our ethos, your methodical approach to what's important and essential for the care of the Aged, for the implementation of vision and values which are to be imbibed by staff for each of the residents and for the enthusiasm of how Charingfield might be into the future. Blessings to each of you and your staff as you embark on an exciting and different future for Charingfield”

Brother Bernard Gartland , Trustee

## Apollo Care management team key principals



### **John C Young, Executive Chair**

John has over 30 years' corporate experience including principal roles in private equity, public market capital raising, corporate strategy and acquisitions, corporate governance, and management consulting.

John is a Principal at KTM Capital, an equity capital markets firm serving services and tech sector clients. Prior to this, John was Director of Corporate Development at Boral Limited. Prior to this, John worked as an executive director at Patrick Corporation. Previously, John worked with the management consultants McKinsey & Company, serving clients in a variety of industries in Australia, Europe, and the USA.

John holds a Bachelor of Engineering and a Master in Business Administration.



### **Stephen Becsi OAM, Chief Executive Officer**

Previously, Stephen was CEO of the Bethanie Group, one of WA's largest NFP providers of aged care services, including residential aged care. Under his leadership Bethanie achieved top-tier standards of performance.

Stephen also served as the Director of the Navy's Strategic Reform Program, and also previously as Deputy CEO and Group CFO at Bethanie, and CEO of Bethanie Housing. He has a Bachelor of Commerce and a Master in Science (Logistics) and is a FAIM.

Most recently Stephen was CEO of Appellon, a key partner of Apollo Care.

Stephen was winner of the Aged Care Industry most Influential Business Leader of the year 2013 and numerous other awards. He served as President of Leading Aged Services Australia in Western Australia. In 2015, Stephen was awarded an OAM for Services to the Aged Care Industry.



### **Barry G Ashcroft, Chief Operating Officer**

Barry Ashcroft has worked 30 years in the aged care industry in a variety of leadership, operational, government and consulting roles. He has extensive networks within both the industry and government.

Previously, Barry completed contracted strategic advisory appointments with leading Queensland and interstate Aged Care providers. He was CEO of Leading Age Services Australia in Queensland, a peak body for residential aged care operators and prior to that, he was CEO/Director of Domain Aged Care (now Opal) where he aggregated a number of prime acquisitions.

Barry has a diploma in engineering and graduated a Master in Business Administration and Master of Technology Management from Griffith University. He is a Fellow of the Australian Institute of Management and a Member of the AICD with Graduate qualifications.

## Apollo Care key governance leadership



**Kylie Radburn, Chief Governance Officer**

Most recently Kylie was National Care Governance Manager for the Aveo Group. Kylie has over 15 years' experience in residential care including care of persons with a diagnosis of dementia. She is a former residential aged care quality assessor with extensive contemporary experience conducting risk assessments in residential aged care facilities (sub-contracted by the services to explore and attend to areas of non-compliance). In addition, Kylie has worked in retirement villages, community care, drug & alcohol, early childhood care, and child protection.

Kylie is a registered nurse with Bachelor of Nursing degree, and also holds an Advanced Certificate in Infection Control from the Royal Australian College of Nursing.



**Terry Williamson, designate Director of Apollo Care and Audit Committee Chair**

Terry recently retired from the board of Stockland Limited, where he served since 2003. Mr Williamson served as Chair of the Audit Committee, Stockland Capital Partners Audit and Risk Committee and several Financial Services Compliance Committees.

He served as a member of the Audit Committee of the Reserve Bank of Australia, a Director of Avant Insurance Limited, and the Doctors Health Fund, Chairman of OnePath Life Limited, Chairman of OnePath General Insurance Pty Limited, and Chairman of the University of Sydney School of Business Advisory Board. He has also served on numerous not-for profit and charity Boards.

He was previously the Chief Financial Officer of Bankers Trust Australia Limited from 1997 to 2002 and prior to that was a partner of PriceWaterhouse for 17 years.

Terry has a B.Ec. and M.B.A. from the University of Sydney and is a FCA, FCPA and FAICD.



**Rodney Young, designate Chair of Community Advisory Board**

Rod is the recently retired national CEO of Aged Care Association Australia, which represents some 800 aged care providers across Australia.

Prior to this role, Rod spent many years working in the health and associated fields including managing acute sector hospitals.

For three years Rod worked for Australian Business as their Industry Liaison Manager, which involved the creation of a nationally coordinated umbrella organisation covering the Chambers of Commerce and Industry in Australia.

After completing a Law Degree he worked with the Uniting Church and the Federal Attorney Generals Department to prove the veracity of adjunct dispute resolution services outside of the litigation mainstream in Family Law related matters.

Rod holds two degrees both from the University of New South Wales in Law and Health Services Management.