RADIUS RESIDENTIAL CARE LIMITED

# Supplementary financial information

10 December 2020

radius care

Caring is our calling

## About this document

The information contained in this document should be read in conjunction with Radius Residential Care Limited's Listing Profile dated 10 December 2020 ("**Profile**") and other information presented on the Radius Care Website. The purpose of this document is to provide additional detail on Radius Care's historical financial information.

Capitalised terms in this document have the same meaning as the terms defined in the Profile.

The financial information in this document is presented in New Zealand dollars and is rounded, which may result in some discrepancies between the sum of the components and totals within tables or charts, and also certain percentage calculations.

## Radius Care revenue

Section 2 (*Radius Care and what it does*) of the Profile provides an overview of how Radius Care generates revenue. Set out below is greater detail on the underlying drivers of the Radius Care business.

## Aged care operating revenue

Aged care operating revenue comprises daily care fees from occupied Care Beds (rest home, hospital, dementia and other high acuity and specialist[1]), accommodation supplements, and all other aged care income.

### Aged Care operating revenue

| NZ$m | FY2018 | FY2019 | FY2020 | 1HY2020 | 1HY2021 |
|---|---|---|---|---|---|
| **Financial period** | **12 months ended 31 March 2018** | **12 months ended 31 March 2019** | **12 months ended 31 March 2020** | **6 months ended 30 September 2019** | **6 months ended 30 September 2020** |
| Rest home care fees | 22.4 | 24.8 | 25.9 | 12.8 | 13.0 |
| Hospital care fees | 52.4 | 54.8 | 57.0 | 27.8 | 30.6 |
| Dementia care fees | 16.0 | 18.0 | 18.9 | 9.5 | 9.9 |
| Other high acuity and specialist care fees[1] | 4.2 | 4.8 | 5.0 | 2.6 | 2.4 |
| **Total care fees** | **95.0** | **102.4** | **106.8** | **52.7** | **55.9** |
| Accommodation supplements | 3.0 | 4.1 | 4.9 | 2.4 | 2.7 |
| Other aged care income[2] | 0.9 | 0.8 | 0.9 | 0.4 | 0.4 |
| **Total aged care Pro forma Underlying operating revenue** | **98.9** | **107.3** | **112.6** | **55.5** | **59.0** |
| Remove: Other income[3] | (0.1) | - | - | - | - |
| **Aged care operating revenue** | **98.8** | **107.3** | **112.6** | **55.5** | **59.0** |

**Notes:**

1. Other high acuity and specialist care comprises psychogeriatric, physical and intellectual care.
2. Other aged care income comprises additional fees paid privately by the resident for additional services such as day trips and supplementary therapy services. Also included is rental income charged to external parties occupying facilities.
3. Reflects NZ IFRS 16 adjustment for rent recovered.

Aged care revenue is primarily driven by the number of available Care Beds, Care Bed occupancy levels, the daily care fee applicable for the level of care being provided and, increasingly, the level of accommodation supplements.

### Aged care portfolio

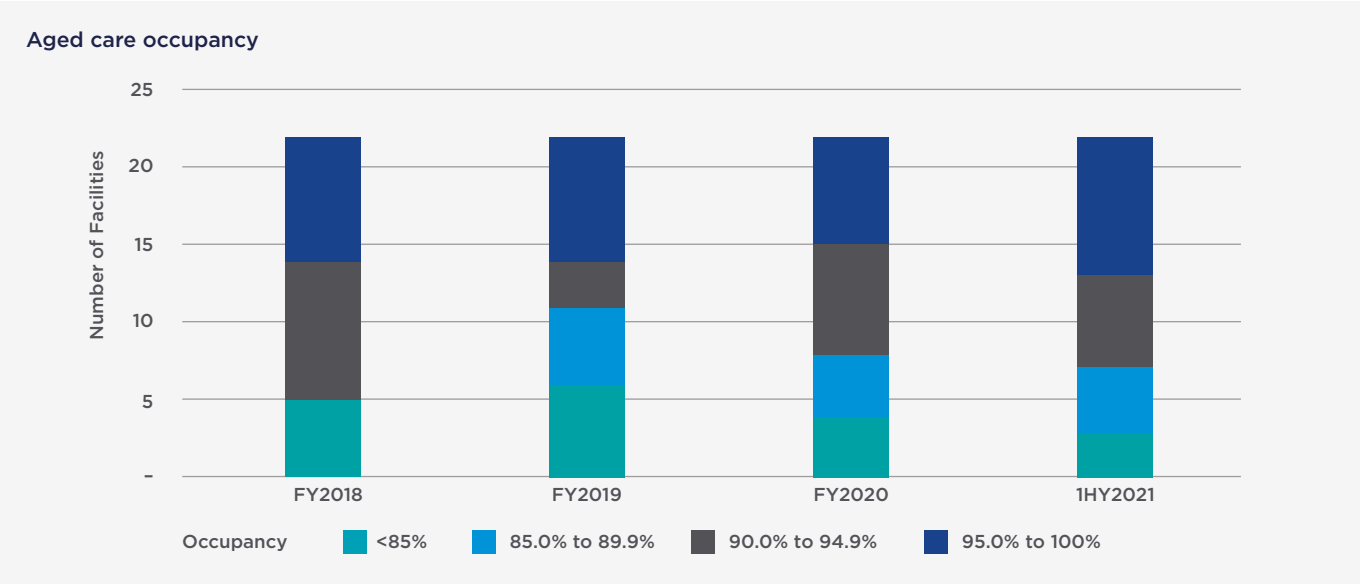
| NZ$m | FY2018 | FY2019 | FY2020 | 1HY2020 | 1HY2021 |
|---|---|---|---|---|---|
| Financial period | 12 months ended 31 March 2018 | 12 months ended 31 March 2019 | 12 months ended 31 March 2020 | 6 months ended 30 September 2019 | 6 months ended 30 September 2020 |
| **Available Care Beds (period end):** | | | | | |
| Rest home | 435 | 437 | 425 | 433 | 394 |
| Hospital[1] | 956 | 977 | 977 | 971 | 1,010 |
| Dementia | 149 | 155 | 167 | 159 | 178 |
| Other high acuity & specialist care | 127 | 127 | 125 | 127 | 112 |
| **Total Available Care Beds** | **1,667** | **1,696** | **1,694** | **1,690** | **1,694** |
| Beds Under Refurbishment | 15 | 5 | 10 | 14 | 20 |
| **Total Care Beds[2]** | **1,682** | **1,701** | **1,704** | **1,704** | **1,714** |
| **Care Bed occupancy (during period):** | | | | | |
| Rest home | 501 | 519 | 525 | 521 | 515 |
| Hospital | 744 | 736 | 730 | 722 | 765 |
| Dementia | 128 | 138 | 155 | 150 | 166 |
| Other high acuity & specialist care | 113 | 125 | 115 | 123 | 105 |
| **Total** | **1,486** | **1,518** | **1,525** | **1,516** | **1,551** |
| *Total occupancy (based on available beds excluding beds under refurbishment)[3]* | 89.1% | 89.5% | 90.0% | 89.7% | 91.6% |

**Notes:**

1. Any Care Bed that is certified for hospital care is classified as a hospital bed for capacity reporting. However, in some cases, hospital beds may be occupied by a rest home level resident and earn rest home level care fees (i.e. 'swing' beds). For this reason rest home occupancy can exceed 100%.
2. Comprises Care Beds occupied, available to be occupied or unavailable due to refurbishment.
3. Total occupied Care Bed days divided by total Care Bed days available during the period.

Radius Care's strategy is to maximise occupancy through exceptional care.

Within the portfolio occupancy levels vary by site as a result of local market factors which impact demand and supply within certain areas. Set out below is a summary of how Radius Care's occupancy levels have varied across the portfolio over financial periods.




Radius Care has experienced strong occupancy growth year on year from an average of 89.1% in FY2018 (1,486 occupied Care Beds) to 91.6% in 1HY2021 (1,551 occupied Care Beds).

For the week ended 1 October 2020 occupancy reached a Radius Care high of 93.5%. There were 13 aged care facilities with over 95.0% occupancy compared to eight aged care facilities over the equivalent period of the prior year.

Millstream (not shown in chart above), an 80 Care Bed Greenfield aged care facility in Ashburton, was opened in May 2016 and reached over 90.0% occupancy by April 2017. It has consistently achieved occupancy over 95.0%. In June 2017, Glaisdale, an 80 Care Bed Greenfield aged care facility in Hamilton, opened and successfully increased occupancy to over 90% and in recent months has achieved up to 100%. As noted in Section 4 (*Radius Care's financial information*), Radius Care increased its advertising spend in FY2020 as part of a campaign to increase occupancy, which has in large part driven the observed trend.

### Aged care fees

Aged care fee levels are regulated and vary based on the type of aged care being provided. In addition, fees vary slightly depending on region, and have historically increased at rates greater than CPI. The table below summarises the historical growth in average DHB fees.

### Growth in DHB daily care fees

| % on previous period | FY2018[1] | FY2019 | FY2020 | FY2021 |
|---|---|---|---|---|
| **Date applied** | **1st July 2017** | **1st July 2018** | **1st July 2019** | **1st July 2020** |
| *Rest home* | *1.8%* | *2.0%* | *3.2%* | *3.0%* |
| *Hospital* | *1.8%* | *2.0%* | *3.2%* | *3.0%* |
| *Dementia* | *1.8%* | *2.0%* | *3.2%* | *3.0%* |
| *Other high acuity & specialist care – Psychogeriatric[2]* | *1.8%* | *2.0%* | *3.2%* | *3.0%* |

**Notes:**

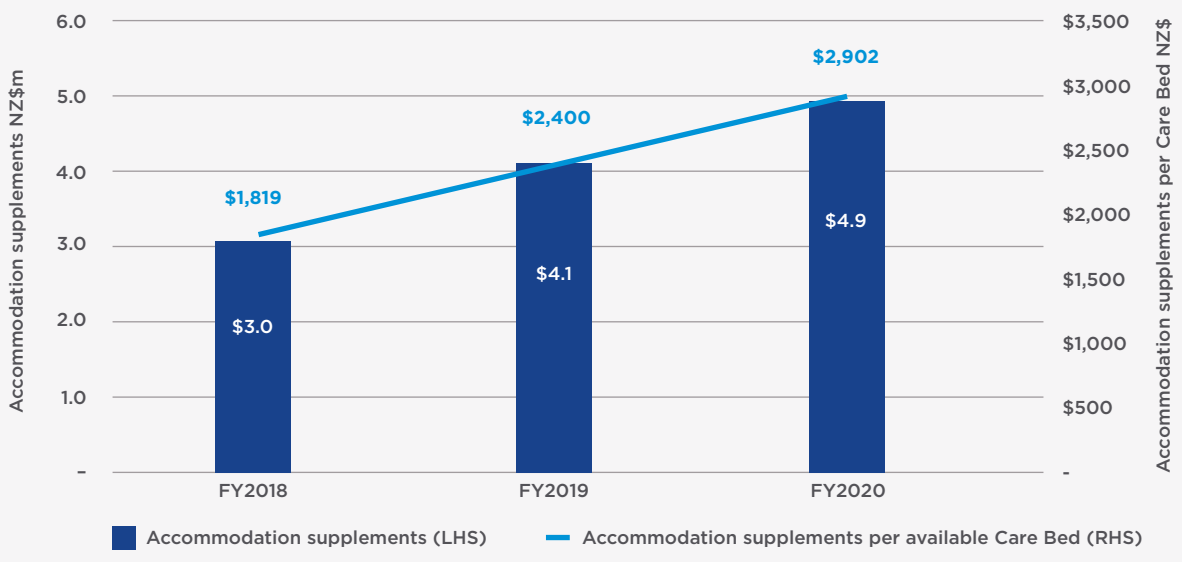
1. This excludes a health care assistant pay equity adjustment applied across the industry.
2. This excludes Other high acuity & specialist care – Physical & intellectual, the majority of which is funded separately by Taikura Trust.

## Accommodation supplements

Radius Care introduced accommodation supplements in January 2009 and has grown this revenue stream to $4.9 million per annum in FY2020. Radius Care has capacity to increase this further through room charge increases and adding charges to rooms (post refurbishment) that currently do not have a charge for enhanced room features.

| | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Accommodation Supplements Revenue | $3.0m | $4.1m | $4.9m |
| Number of Care Beds | 1,682 | 1,701 | 1,704 |
| Number of Available Care Beds with Accommodation Supplements | 1,005 | 1,134 | 1,138 |
| Percentage of Care Beds with Accommodation Supplements | 59.8% | 66.7% | 66.8% |

### Accommodation supplements per available Care Bed



## Retirement village operating revenue

Radius Care owns and operates two retirement villages:

- Windsor Court Village in Ohaupo, which is a well-established retirement village with 22 Units (17 ORAs and 5 unit titles); and
- Elloughton Grange Village in Timaru which was developed over the last 4 years, with the final stage completed in June 2020. It comprises of 54 Units (all under ORAs).

Radius Care accounts for retirement village operating revenue under NZ GAAP which comprises of DMF, weekly service fees and other retirement village revenue.

NZX listed aged care and retirement village sector peers generally focus on non-NZ GAAP Underlying financial metrics which exclude unrealised fair value movements in investment property but include realised gains on the resale of existing Units and development margins on sales of new Units.

### Retirement Village Operating Revenue

| NZ$m | FY2018 | FY2019 | FY2020 | 1HY2020 | 1HY2021 |
|---|---|---|---|---|---|
| **Financial period** | **12 months ended 31 March 2018** | **12 months ended 31 March 2019** | **12 months ended 31 March 2020** | **6 months ended 30 September 2019** | **6 months ended 30 September 2020** |
| DMF | 0.4 | 0.6 | 0.7 | 0.4 | 0.4 |
| Weekly service fees | 0.2 | 0.3 | 0.4 | 0.2 | 0.2 |
| **Retirement village operating revenue** | **0.6** | **0.9** | **1.1** | **0.6** | **0.6** |
| **Underlying metrics:** | | | | | |
| Realised gains on resale of existing Units | 0.2 | 0.1 | - | - | 0.0 |
| Realised development margins on sale of new Units | 0.2 | 0.5 | 0.4 | 0.3 | 0.2 |

### Retirement Village Portfolio and Unit Sales

| NZ$m | FY2018 | FY2019 | FY2020 | 1HY2020 | 1HY2021 |
|---|---|---|---|---|---|
| **Financial period** | **12 months ended 31 March 2018** | **12 months ended 31 March 2019** | **12 months ended 31 March 2020** | **6 months ended 30 September 2019** | **6 months ended 30 September 2020** |
| ORA Units at end of period | 46 | 54 | 66 | 59 | 71 |
| | | | | | |
| Unit resales | 2 | 3 | - | - | 1 |
| Average resale price ($000) | 323 | 355 | - | - | 300 |
| Previous average purchase price of resold ORA ($000) | 203 | 299 | - | - | 290 |
| Cash DMF realised upon resale ($000) | 67 | 66 | - | - | 15 |
| New Unit sales | 9 | 11 | 8 | 5 | 2 |
| Average sale price ($000) | 395 | 377 | 403 | 400 | 425 |
| Development margin on sale ($000) | 203 | 459 | 512 | 322 | 190 |

## Group support revenue

Group support revenue comprises all other non-aged care facility or retirement village related activity, comprising the revenue from the Radius Care Online Shop on a Pro forma basis and, on a statutory basis, also including one-off revenue associated with COVID-19 subsidy. Radius Care seeks to achieve an EBITDA margin of approximately 25%-30% from the Radius Care Online Shop.

## Radius Care operating expenses

Radius Care's key operating expenses include:

- **Aged care staff** — includes costs related to wages, ACC, KiwiSaver, training and orientation, recruitment and uniforms for all facility staff.
- **Aged care facility operations** — includes costs related to running the aged care facilities such as rates, waste removal, utilities, expensed repairs and maintenance, food, outsourced resident meals, laundry, telecommunications, insurance, legal and consultant fees, medical supplies and resident treatment fees such as doctors' and physiotherapists' visits. Radius Care operates a mix of in-house and outsourced kitchen and laundry services.
- **Retirement Village operations** — includes retirement village staff costs for onsite retirement village sales staff and maintenance staff. It also includes rates, expensed repairs and maintenance, utilities, outsourced cleaning costs, insurance, advertising for the sale of Units, consultant fees, statutory supervisor and administration fees.
- **Group support** — includes all corporate related costs such as finance, IT, marketing, HR, property and procurement, payroll and Radius Care Online Shop personnel.

## Operating expenses

| NZ$m | FY2018 | FY2019 | FY2020 | 1HY2020 | 1HY2021 |
|---|---|---|---|---|---|
| Financial period | 12 months ended 31 March 2018 | 12 months ended 31 March 2019 | 12 months ended 31 March 2020 | 6 months ended 30 September 2019 | 6 months ended 30 September 2020 |
| **Aged care** | | | | | |
| Aged care facility staff costs | (54.0) | (60.2) | (65.4) | (32.2) | (32.5) |
| Aged care facility operating expenses | (17.7) | (19.9) | (20.9) | (10.5) | (9.9) |
| **Pro forma Underlying aged care expenses** | **(71.7)** | **(80.1)** | **(86.3)** | **(42.7)** | **(42.4)** |
| *Include:* Operating rental lease expense | (12.0) | (12.4) | - | - | - |
| *Include:* COVID-19 related expenses | - | - | - | - | (0.6) |
| **Aged care operating expenses** | **(83.7)** | **(92.5)** | **(86.3)** | **(42.7)** | **(43.0)** |
| **Retirement village** | | | | | |
| **Retirement village operating expenses** | **(0.7)** | **(0.7)** | **(0.7)** | **(0.4)** | **(0.4)** |
| **Group support** | | | | | |
| **Pro forma Underlying Group support expenses** | **(7.9)** | **(8.1)** | **(9.1)** | **(4.2)** | **(4.7)** |
| *Remove:* Listed & other company costs | 1.0 | 1.1 | 1.1 | 0.5 | 0.6 |
| *Include:* Historical governance costs | (0.3) | (0.2) | (0.4) | (0.1) | (0.5) |
| **Group support expenses** | **(7.2)** | **(7.2)** | **(8.4)** | **(3.8)** | **(4.6)** |
| **Total Pro forma Underlying expenses[1]** | (80.3) | (88.9) | (96.1) | (47.3) | (47.5) |
| **Total operating expenses[2]** | (91.6) | (100.4) | (95.4) | (46.9) | (48.0) |

**Notes:**

1. This is calculated as the sum of the following: Pro forma Underlying aged care expenses, retirement village operating expenses and Pro forma Underlying Group support expenses.
2. This is calculated as the sum of aged care operating expenses, retirement village operating expenses and Group support expenses.

For an overview of key variances in Pro forma Underlying expenses, please refer to Section 4 ("*Radius Care's financial information*") in the Profile.

## Property Lease Expenses

As outlined in Section 4 of the Profile, Radius Care adopted NZ IFRS 16 in FY2020. Whilst the adoption of NZ IFRS 16 has no cash impact, there is a material impact on the total expenses recognised in relation to Radius Care's applicable leases, as outlined below:

| NZ$m | FY2018 | FY2019 | FY2020 | 1HY2020 | 1HY2021 |
|---|---|---|---|---|---|
| **Financial period** | **12 months ended 31 March 2018** | **12 months ended 31 March 2019** | **12 months ended 31 March 2020** | **6 months ended 30 September 2019** | **6 months ended 30 September 2020** |
| **NZ IFRS 16 recognition of lease expenses** | | | | | |
| Depreciation on right-of-use assets | (5.7) | (5.8) | (7.2) | (3.6) | (3.6) |
| Interest on lease liability | (10.1) | (10.1) | (9.4) | (4.5) | (4.5) |
| **Lease related expenses for applicable leases** | **(15.8)** | **(15.9)** | **(16.6)** | **(8.1)** | **(8.1)** |
| **Pre-NZ IFRS 16 recognition of lease expenses** | | | | | |
| Operating rental lease expense for applicable leases | 12.0 | 12.4 | 12.4 | 5.7 | 6.4 |
| **Lease related expenses for applicable leases** | **12.0** | **12.4** | **12.4** | **5.7** | **6.4** |
| Difference | (3.8) | (3.5) | (4.2) | (2.4) | (1.7) |

## Depreciation

Under NZ IFRS 16 Radius Care's depreciation includes:

- Plant and equipment depreciation based on an assessment of its useful life. Depreciation commenced being calculated from 1 April 2020 on buildings owned by Radius Care for 1HY2021 at 2% per annum; and
- Depreciation of right-of-uses assets in relation to applicable leases under NZ IFRS 16.

## Radius Care Statement of Financial Position

| NZ$m | FY2020 | 1HY2021 |
|---|---|---|
| **Financial period** | **12 months ended 31 March 2020** | **6 months ended 30 September 2020** |
| **Assets** | | |
| Cash and cash equivalents | 2.3 | 4.6 |
| Trade and other receivables | 6.8 | 5.9 |
| Investment properties | 27.8 | 29.4 |
| Property, plant and equipment | 32.3 | 31.7 |
| Intangible assets | 17.0 | 17.0 |
| Deferred tax assets | 2.0 | 3.1 |
| Right-of-use assets | 181.4 | 179.4 |
| Other assets | 1.3 | 2.2 |
| **Total assets** | **270.9** | **273.3** |
| **Liabilities** | | |
| Trade and other payables | 5.9 | 5.3 |
| Provisions | 8.0 | 8.8 |
| Borrowings | 31.4 | 30.6 |
| Refundable occupation right agreements | 18.4 | 19.4 |
| Current tax liability | 0.7 | 1.1 |
| Lease liabilities | 185.3 | 185.0 |
| Other liabilities | 0.4 | 0.2 |
| **Total liabilities** | **250.1** | **250.4** |
| **Net assets** | **20.8** | **22.9** |
| **Equity** | | |
| Share capital | 4.7 | 4.7 |
| Reserves | 5.7 | 5.7 |
| Retained earnings | 10.4 | 12.5 |
| **Total equity** | **20.8** | **22.9** |

For further details on the statement of financial position, please refer to FY2020 statutory financial statements and 1HY2021 interim financial statements (unaudited) which are available on the Radius Care Website.

*Investment properties*

Investment properties relate to owned retirement village ORA Units and any common facilities at those retirement villages. Investment properties are held for long-term yields.

Radius Care's investment properties include:

- Windsor Court Village in Ohaupo, Waikato.
- Elloughton Grange Village in Timaru, which was developed by Radius Care.

The investment properties were valued at 31 March 2020 and 30 September 2020 by an independent registered valuer.

*Property, Plant and Equipment*

Property, Plant and Equipment includes:

- The land and buildings of Radius Care's owned aged care facilities.
- Furniture, fixtures and fittings at all aged care facilities and its Group support office; and
- Radius Care's IT systems, medical equipment and motor vehicles.

*Intangible assets*

Intangible assets relate to acquired Goodwill from historical acquisitions undertaken by Radius Care.

*Right-of-use assets and lease liabilities*

Right-of-use assets and lease liabilities relate to Radius Care's applicable leases under NZ IFRS 16.

*Refundable occupation rights agreements*

Refundable occupation rights agreements relate to ORAs sold at Radius Care's retirement villages.

*Reserves*

Reflects the revaluation of Radius Care's owned aged care facilities (excluding the recently acquired Lexham Park facility) by an independent registered valuer.

*Financing*

Bank loans comprise the following facilities with ASB Bank Limited as at 30 September 2020 and 30 November 2020:

**Financing Structure**

| NZ$m | Facility limit | Drawn amount As at 30 Sep 2020 | Drawn amount As at 30 Nov 2020 | Maturity date |
|---|---|---|---|---|
| Committed Cash Advance - Radius Residential Care Limited | 19.4 | 19.3 | 19.2 | 29 April 2022 |
| Revolving Committed Cash Advance – Elloughton Grange Village Limited | 3.0 | 1.5 | 1.0 | 3 June 2021 |
| Committed Cash Advance - Radius Care Holdings Limited | 9.8 | 9.8 | 9.8 | 29 July 2023 |
| Overdraft | 1.5 | - | - | On demand |
| **Total** | **32.2** | **30.6** | **30.0** | |
| Cash at Bank | N/A | 4.6 | 5.2 | |
| Net Interest Bearing Debt | N/A | 26.0 | 24.8 | |

Radius Care needs to comply with the following ASB banking covenant requirements (with all measures excluding the impact of NZ IFRS 16):

- Equity ratio: The ratio of total shareholder funds to total assets of the consolidated group (excluding (i) in each case, the value of the village facilities recorded in the financial statements as investment property and (ii) in the case of total shareholder funds only, the refundable occupation right agreements and indebtedness for borrowed money of Elloughton Grange Village Limited) must at no time be less than:[1]
    - 20.0% up to (and including) 30 September 2021;
    - 22.5% from (and including) 1 October 2021 to (and including) 31 December 2021; and
    - 25.0% thereafter.
- Debt Coverage Ratio: The ratio of senior debt (excluding indebtedness for borrowed money of Radius Care Holdings Limited and Elloughton Grange Village Limited) to Pre NZ IFRS 16 EBITDA for the last 12 months must be less than or equal to:[2]
    - 2.70x from (and including) 1 January 2021 to (and including) 31 March 2021;
    - 2.50x from (and including) 1 April 2021 to (and including) 30 September 2021;
    - 2.25x from (and including) 1 October 2021 to (and including) 31 December 2021; and
    - 2.00x thereafter.
- Fixed Charges Cover Ratio: The ratio of Pre NZ IFRS 16 EBIT plus operating rental lease expense for the consolidated group (each for the last 12 months) to fixed charges for the consolidated group must be greater than or equal to:[3]
    - 1.08x from (and including) 1 January 2021 to (and including) 30 September 2021; and
    - 1.15x thereafter.

These covenants are reported to the ASB on a quarterly basis.

**Notes:**

1. For the Equity Ratio calculation, Total Assets excludes asset revaluations (unless prior consent of ASB is provided).
2. For the Debt Coverage Ratio calculation, EBITDA excludes gains or losses arising from asset revaluations (including of investment properties).
3. For the Fixed Charge Ratio calculation, EBIT excludes gains or losses arising from asset revaluations (including of investment properties) and fixed charges exclude interest in respective of indebtedness for borrowed money of Elloughton Grange Village Limited.

## Radius Care Statement of Cash Flows

| NZ$m | FY2020 | 1HY2021 |
|---|---|---|
| Financial period | 12 months ended 31 March 2020 | 6 months ended 30 September 2020 |
| Receipts from customers | 113.3 | 61.1 |
| Payments to suppliers and employees | (95.4) | (48.9) |
| Interest received | 0.0 | 0.0 |
| Interest paid | (10.6) | (4.9) |
| Income tax paid | (0.8) | (1.4) |
| **Net cash inflow from operating activities** | **6.5** | **5.9** |
| Proceeds from the sale of property, plant and equipment | 0.1 | - |
| Proceeds from the sale of licenses to occupy | 3.7 | 1.7 |
| Payment for repurchase of licenses to occupy | - | (0.3) |
| Payments for the purchase of property plant and equipment | (11.3) | (1.5) |
| Payments relating to developments | (3.7) | (0.8) |
| **Net cash outflow from investing activities** | **(11.2)** | **(0.9)** |
| Proceeds from borrowings | 11.1 | (0.8) |
| Repayment of shareholder loans | (5.0) | - |
| Principal portion of lease payments | (3.0) | (1.9) |
| Dividend paid | (0.3) | - |
| **Net cash inflow from financing activities** | **2.8** | **(2.7)** |
| **Net increase in cash and cash equivalents** | **(1.9)** | **2.3** |
| **Cash and cash equivalents at beginning of the period** | **4.2** | **2.3** |
| **Cash and cash equivalents at end of the period** | **2.3** | **4.6** |

For further details on the statement of cash flows, please refer to FY2020 statutory financial statements and 1HY2021 interim financial statements (unaudited) which are available on the Radius Care Website.

## Reconciliation of Non-NZ GAAP to NZ GAAP financial information

The reconciliation set out below has been reproduced from (and is identical to) the corresponding information under the same header in Section 4 (*Radius Care's financial information*) of the Profile.

| NZ$m | FY2018 | FY2019 | FY2020 | 1HY2020 | 1HY2021 |
|---|---|---|---|---|---|
| **Financial period** | **12 months ended 31 March 2018** | **12 months ended 31 March 2019** | **12 months ended 31 March 2020** | **6 months ended 30 September 2019** | **6 months ended 30 September 2020** |
| | *Audited* | *Audited* | *Audited* | *Unaudited* | *Unaudited* |
| **Statutory NPAT** | **3.8** | **4.2** | **(2.8)** | **(1.5)** | **2.1** |
| **Pro forma adjustments** | | | | | |
| ***NZ IFRS 16 consistency adjustments*** | | | | | |
| Include: Depreciation on right-of-use assets | (5.7) | (5.8) | - | - | - |
| Include: Interest on lease liabilities | (10.1) | (10.1) | - | - | - |
| Include: Other income | 0.1 | - | - | - | - |
| Remove: Operating rental lease expense | 12.0 | 12.4 | - | - | - |
| Include: Deferred tax impact relating to NZ IFRS 16 adjustments | 1.0 | 1.0 | - | - | - |
| ***Non-recurring or infrequent items*** | | | | | |
| Remove: COVID-19 related expenses | - | - | - | - | 0.6 |
| Remove: Government COVID-19 subsidy | - | - | (0.4) | - | (0.9) |
| ***Structural changes and other*** | | | | | |
| Include: Listed & other company costs | (1.0) | (1.1) | (1.1) | (0.5) | (0.6) |
| Remove: Historical governance costs | 0.3 | 0.2 | 0.4 | 0.1 | 0.5 |
| Include: Income tax impact from Pro forma adjustments | 0.2 | 0.2 | 0.3 | 0.1 | 0.1 |
| **Underlying adjustments** | | | | | |
| Remove: Change in fair value of investment property | (0.7) | (1.4) | 0.6 | 0.4 | (0.7) |
| Include: Realised development margins | 0.2 | 0.5 | 0.5 | 0.3 | 0.2 |
| Include: Realised gains on resales | 0.2 | 0.1 | - | - | - |
| Remove: Deferred tax expense (incl. NZ IFRS 16 adjustments related) | (0.6) | (0.7) | (0.1) | (0.7) | (1.1) |
| **Pro forma Underlying NPAT** | **(0.3)** | **(0.5)** | **(2.6)** | **(1.8)** | **0.2** |
| Remove: Depreciation and amortisation | 8.7 | 9.4 | 10.9 | 5.5 | 5.7 |
| Remove: Net interest expense | 10.6 | 10.9 | 10.5 | 5.1 | 5.0 |
| Remove: Current tax expense | 0.7 | 0.6 | (0.6) | 0.5 | 1.5 |
| **Pro forma Underlying EBITDA** | **19.7** | **20.4** | **18.2** | **9.3** | **12.4** |
| Include: Pre-NZ IFRS 16 operating rental lease expense | (12.0) | (12.4) | (12.4) | (5.7) | (6.4) |
| **Pre-NZ IFRS 16 Pro forma Underlying EBITDA** | **7.7** | **8.0** | **5.8** | **3.6** | **6.0** |
| Include: Depreciation and amortisation (Pre-NZ IFRS 16) | (3.0) | (3.6) | (3.7) | (1.8) | (2.1) |
| Include: Net interest expense (Pre-NZ IFRS 16) | (0.6) | (0.9) | (1.2) | (0.6) | (0.5) |
| Include: Current tax expense | (0.9) | (0.7) | 0.3 | (0.5) | (1.7) |
| Include: Income tax impact from Pro forma adjustments | 0.2 | 0.2 | 0.3 | 0.1 | 0.1 |
| **Pre-NZ IFRS 16 Pro forma Underlying NPAT** | **3.4** | **3.0** | **1.5** | **0.8** | **1.8** |
| Remove: Depreciation and amortisation (excl. NZ IFRS 16 related) | 3.0 | 3.6 | 3.7 | 1.8 | 2.1 |
| Include: Maintenance capital expenditure | (5.1) | (4.6) | (4.4) | (2.6) | (1.6) |
| **AFFO** | **1.3** | **2.0** | **0.8** | **0.0** | **2.3** |

## Adjustments for Pro forma Underlying metrics

The explanation of Pro forma Underlying metrics set out below has been reproduced from (and is identical to) the corresponding information under the same header in Section 4 (*Radius Care's financial information*) of the Profile.

### Pro forma adjustments

*NZ IFRS 16 consistency adjustments*

Radius Care currently leases 19 of its 22 aged care facilities and owns three aged care facilities. NZ IFRS 16 came into effect for the FY2020 financial year. NZ IFRS 16 eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their Statements of Financial Position.

NZ IFRS 16 introduces a single lessee accounting model that requires a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. All of Radius Care's 19 leased aged care facilities are subject to NZ IFRS 16. Right-of-use assets are initially measured at cost and lease liabilities are initially measured on a present value basis.

Radius Care has used the modified retrospective approach for the NZ IFRS 16 adoption, under which the comparative information was not restated. In order to allow for comparability across historical periods, Radius Care has applied a Pro forma adjustment to the FY2018 and FY2019 statutory statements of comprehensive income to retrospectively incorporate the impact of NZ IFRS 16.

The values determined for the Pro forma adjustment in relation to the adoption of NZ IFRS 16 have been calculated using the modified retrospective transition approach from 1 April 2017 (i.e. the start of the 2018 financial year). At 1 April 2017, lease liabilities are measured at the present value of the remaining lease payments as at that date, discounted at Radius Care's incremental borrowing rate (IBR). Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The methodology applied to determine the Pro forma impact is the same as that adopted by Radius Care in its audited FY2020 financial statements and is explained in further detail in those financial statements.

Radius Care has assumed a single IBR is appropriate for all applicable leases. To maintain consistency in methodology, a single IBR of 6.2% was calculated for 1 April 2017 based on the weighted average lease term of the portfolio as at that date. The IBR calculated for 1 April 2017 is higher than that adopted for the FY2020 financial statements (5%) due to the reduction in bank base interest rates over that time period.

*Non-recurring or infrequent items*

**1. COVID-19 related expenses**

As part of the response to COVID-19, Radius Care incurred additional expenses, including expenses in relation to additional sick leave and isolation leave from April 2020 to September 2020. Radius Care required staff take a COVID-19 test before returning to work following any sick leave or isolation leave, to ensure the safety of residents and staff in the aged care facilities.

**2. Government COVID-19 related subsidy**

As with other aged care providers in New Zealand, Radius Care received funding in FY2020 from the Government in relation to the increased costs associated with COVID-19 which covered higher staff and PPE costs.

*Structural changes and other*

**1. Listed & other company costs**

Following its listing Radius Care will incur costs associated with operating in a listed environment in respect of directors' fees (including the additional independent directors recently appointed to Radius Care), audit costs, listing fees, share registry fees, enhanced shareholder reporting costs and additional director & officer insurance costs. From listing, Radius Care will also incur a fee of 3.5% per annum of annual rental and outgoings in relation to the personal guarantee in place with one landlord, as more particularly described under the heading "Material interests in the Radius Care Group" on page 52 in Section 2 (*Radius Care and what it does*) of the Profile.

**2. Historical governance costs**

These relate to non-recurring historical directors, consulting and management fees previously incurred by Radius Care but now replaced by listed & other company costs.

### 3. Income tax

Included is the potential income tax impact of the above Pro forma adjustments above. An effective tax rate of 28% has been assumed.

### Underlying adjustments

Underlying adjustments allow for direct comparison to other NZX listed aged care and retirement village operators and include:

- The removal of changes in the fair value of investment property relating to Radius Care's owned retirement villages (Elloughton Grange Village and Windsor Lifestyle Estate Village);
- Inclusion of realised development margins on the cash settlement of the first sale of new ORA Units following development;
- Inclusion of realised gains on Unit resales. Realised gains are calculated as the net cash flow received by Radius Care on the cash settlement of the resale of pre-existing ORA Units (i.e. the difference between the value of the ORA licence payment received from the incoming resident and the ORA licence payment previously received from the outgoing resident). Realised gains are net of incurred refurbishment costs. The margin on the repurchase of legacy units under a unit title subsequently sold under an ORA contract is also included.
- Removal of statutory deferred tax expenses and deferred tax expenses including those related to NZ IFRS 16, where applicable.

Pre-NZ IFRS 16 Pro forma Underlying EBITDA includes the pre-NZ IFRS 16 operating rental lease expense from Pro forma Underlying EBITDA to remove the impact of the adoption of NZ IFRS 16 on Pro forma Underlying EBITDA.

Pre-NZ IFRS 16 Pro forma Underlying NPAT removes the pre-NZ IFRS 16 depreciation and amortisation, the pre-NZ IFRS 16 interest expenses and tax expenses to remove the impact of NZ IFRS 16 on Pro forma Underlying NPAT.

### AFFO

AFFO is a cash proxy used by Radius Care to determine the level of dividend it may pay.

AFFO is calculated from Pre-NZ IFRS 16 Pro forma Underlying NPAT by removing pre-NZ IFRS 16 depreciation and amortisation and instead including maintenance capital expenditure. Pre-NZ IFRS 16 Pro forma Underlying NPAT is used as the starting point for this calculation as it reflects the pre-NZ IFRS 16 operating rental lease expense which largely represents the actual cash lease payment made, rather than the NZ IFRS 16 equivalent (depreciation on right-of-use assets and interest on lease liabilities), which materially exceed the actual cash lease payments as shown under the heading "Property Lease Expenses" on page 10. Note, no adjustment is made for differences between accrued DMF and cash DMF realised.

Maintenance capital expenditure has historically (between FY2018 and FY2020) been between $4.4 million to $5.1 million per annum. In FY2018 maintenance capital expenditure included $0.8 million in relation to a new automated care planning system and as such exceeded the equivalent FY2019 and FY2020 levels.

Whilst maintenance capex exceeded pre-NZ IFRS 16 depreciation and amortisation between FY2018 and FY2020, going forward maintenance capex and pre-NZ IFRS 16 depreciation and amortisation are expected to be broadly similar.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Caring is our calling