MA Financial Group

We invest. We lend. We advise.

MA Aged Care Fund

Asset Management

Investor update
September 2023

The MA Aged Care Fund (Fund) is a closed end fund invested in a controlling equity interest in aged care operator and developer Infinite Care (Infinite).

Caravonica Facility

MA Investment Management Pty Ltd (ACN 621 552 896) is a Corporate Authorised Representative of MA Asset Management Ltd (ACN 142 008 535) (AFSL 427 515)

IMPORTANT INFORMATION

This update has been issued by MA Investment Management Pty Ltd, the appointed Manager of the Fund and is subject to the disclaimer at the bottom of this document. MA Asset Management Ltd (ACN 142 008 535) is the trustee of the Fund (**Trustee**).

Investment objective

At acquisition, Infinite operated 391 residential aged care beds across five facilities in South Australia. Today, Infinite operates ~2,000 beds across 17 facilities across Australia.

The Fund is a total return fund, and MA Investment Management Pty Ltd (Manager) does not anticipate making distributions during the term of the Fund.

Investment strategy

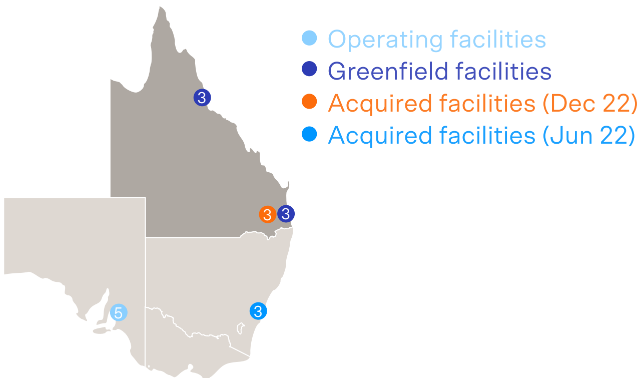
Capital raised by the Fund was used to acquire the controlling interest in Infinite and finance the development and trade up of additional facilities. At Fund inception, the Manager sought to maximise investor value by supporting Infinite to deliver a profitable bed portfolio of ~1,500 operational beds by the end of 2021.

As at the date of this report, Infinite operate a total of 1,975 beds comprising the South Australia (Operating Facilities or SA Facilities) and Queensland (Greenfield Facilities) facilities, three facilities acquired in June 2022 located in New South Wales (Acquired Facilities – Jun 22) and three facilities acquired in December 2022 located in New South Wales and Queensland (Acquired Facilities – Dec 22).

Fund overview	
Capital invested	A$70.0m
Fund inception date	November 2017
Unit price (at inception)	A$1.00/unit
Unit price (December 2022)	A$0.95/unit

Investment management

RICHARD BARRESI
Executive Director



Key operating metrics[1]

September 2023

Metric	Unit	Quarter ending 30 June 2023	Quarter ending 30 September 2023	Variance
Total operating beds	Beds	1,975	1,975	-
Total group revenue (quarter ending)	A$m	51.4	60.7	+18.2%
Occupancy (as at period end)				
Operating Facilities (SA)	%	90%	93%	+2.5%
Greenfield Facilities (QLD)	%	97%	96%	-(0.4%)
Acquired Facilities - Jun 22	%	80%	81%	+1.1%
Acquired Facilities - Dec 22	%	88%	94%	+5.5%
Occupancy (last quarter average)				
Operating Facilities (SA)	%	90%	91%	+0.6%
Greenfield Facilities (QLD)	%	96%	94%	-(1.5%)
Acquired Facilities - Jun 22	%	79%	76%	-(2.9%)
Acquired Facilities - Dec 22	%	85%	84%	-(0.6%)

1. Unaudited management accounts.

Operating update

September 2023

Overview

At September 2023 Infinite Care operated 1,975 beds across 17 facilities with an average portfolio occupancy of 92.1%, up 2.0% versus the prior quarter. Revenue for the quarter was $60.7m, up 18.2% versus the prior quarter. This was driven predominately by an uplift in occupied bed days in line with the group's continued occupancy ramp up, as well as an increase in Infinite's revenue per resident based on acuity (care need) mix (with higher government funding attached to higher care needs).

Infinite continued its positive EBITDA (earnings before interest, taxes, depreciation, and amortization) momentum with EBITDA of $5.6m for the quarter (versus $0.9m for the June quarter), in line with occupancy increases. Notwithstanding this, from October 2023 mandatory care minutes come into effect sector wide. Depending on the availability of labour across the entire sector, this may result in a deterioration in margins due to competition for limited qualified nursing staff driving down margins and potentially lower forward-looking earnings.

Operating Facilities (South Australia)

Average occupancy at the SA Facilities for the quarter ended September 2023 was 93%, in line with longer term averages and marginally above the prior quarter. Occupancy fluctuates based on the impact of COVID-19 lockdowns at various facilities during the quarter.

Greenfield Facilities (Queensland)

Average occupancy at the Greenfield Facilities for the quarter ended September 2023 was 96%, down 0.4% versus the prior quarter. All facilities achieved occupancy greater than 90% for the quarter.

Acquired Facilities (acquired June 2022)

Average occupancy at the Acquired Facilities (June 2022) for the quarter ended September 2023 was 81%, up 1% versus the prior quarter.

Acquired Facilities (acquired December 2022)

Average occupancy at the Acquired Facilities (December 2022) for the quarter ended September 2023 was 94%, up 6% versus the prior quarter.

Figure 1 – Consolidated monthly revenue over time[2]

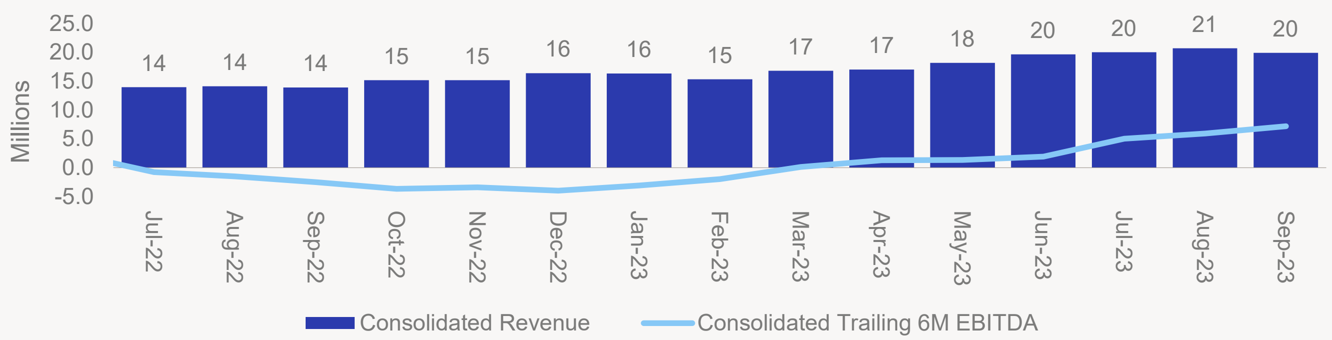
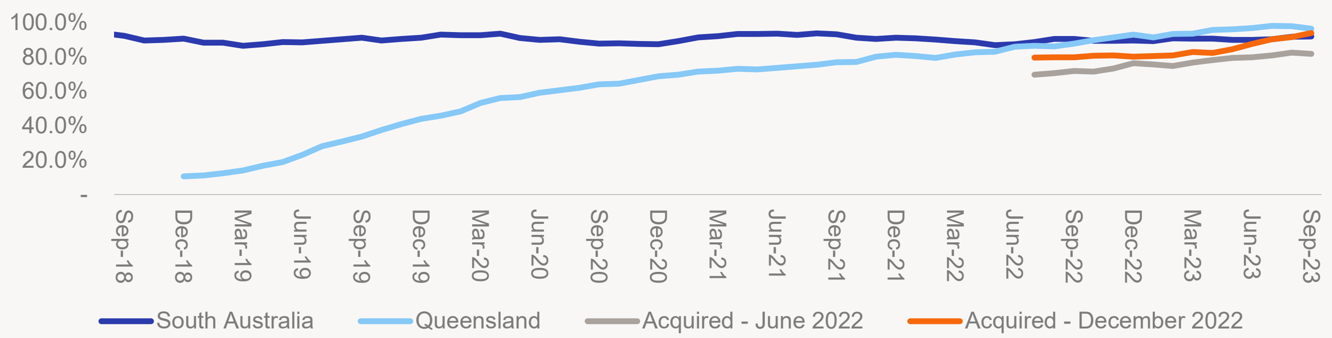


Figure 2 – Facility occupancy over time



2. Unaudited management accounts

Development Facilities

In light of escalating construction costs and sustained underfunding to the sector, Infinite's Rowville development has been under review and all other new developments have ceased.

Development Update

Subsequent to the quarter in late October 2023 and following over 18 months of negotiations and design amendments with the Builder, Infinite has elected to continue with the Rowville development on terms the Manager believes will be incremental to the value of its investment. Infinite has entered into a fixed price contract with a reputable builder alongside a full fund-through of construction costs paid by a large third-party REIT. Construction is scheduled for early 2024 and is expected to be completed in approximately 18 months. On completion, Infinite will add its 18th aged care facility with 144 premium quality residential rooms.

Sector valuation metrics

The above metrics highlight that trading multiples and earnings per bed are at historical low points which is largely due to:

- continued Government underfunding since 2017
- additional costs and strain on the workforce for working in a COVID-19 environment for over two years.
- significant increased compliance and regulatory obligations and costs post implementation of Royal Commission Reform Agenda (2022-25)
- sustained pressures on the availability and price of labour since 2020 with no reprieve expected in the short to medium term.
- uncertainty regarding the operation and effectiveness of the new Independent Health and Aged Care Pricing Authority (IHACPA) which delivered its first funding recommendation in May 2023.

The Manager is cautiously optimistic that the over the next 12-24 months there should be an improvement in some if not all of the above variables required to restore confidence back into the sector and attract additional private capital which has been largely absent over the last several years.

Figure 3 – Trading multiples over time[3]

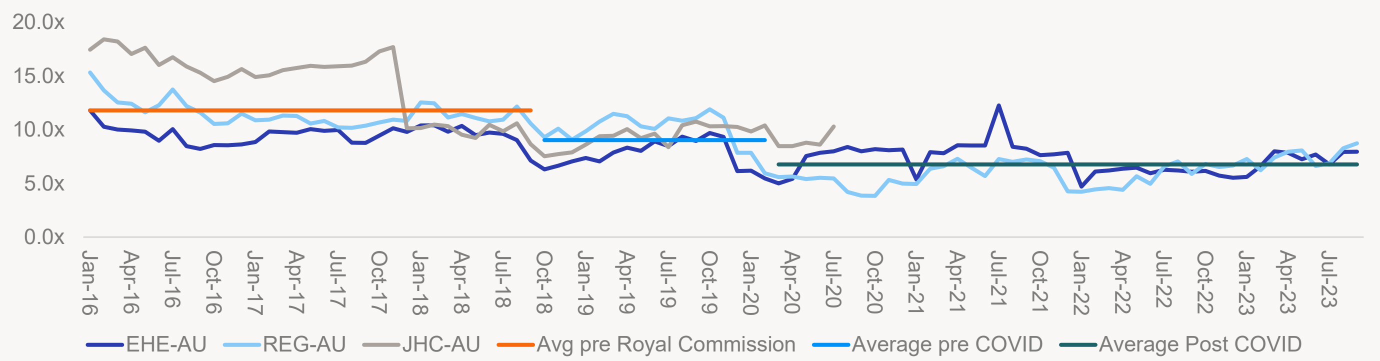
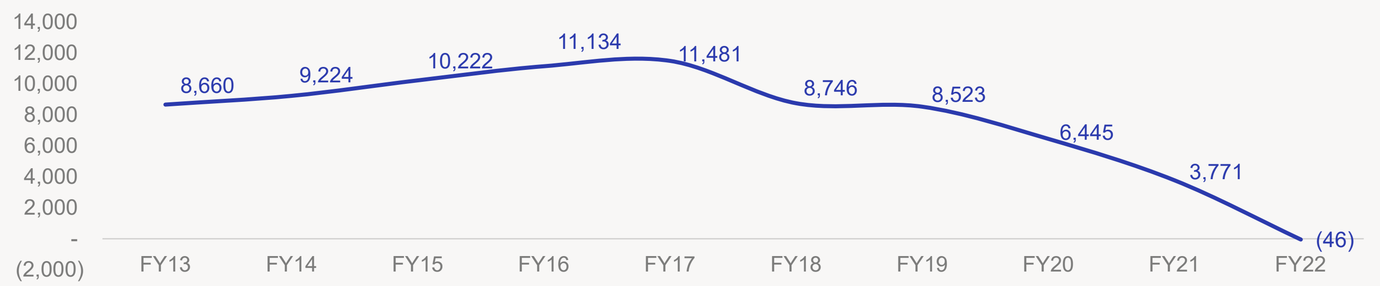


Figure 4 – Sector EBTIDA per bed over time[4]



3. Net of RADs. Source: FactSet, MA Analysis
4. Source: www.health.gov.au/resources/publications/financial-report-on-the-australian-aged-care-sector-2021-22?language=en

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Outlook

The Manager continues to focus on enhancing and optimizing performance of the facilities and completing integration and ramp up of the Acquired Facilities. This will best position the portfolio for a liquidity event.

Sector Valuation Metrics earnings and valuation multiples remain at historical lows. Achieving a partial and/or full liquidity event is dependent on clarity around funding of the sector, and therefore inextricably linked to government and regulatory policy. While the recent budgetary funding increases and adoption of the IHACPA recommendations in June 2023 were positive, these increases are intended by the government to be passed directly through to employees and do not address profitability of operators. Recent government announcements in November 2023 suggest the Government is becoming more supportive of implementing “user-pay” mechanisms to deliver more sustainable funding outcomes – an approach that has been promoted by operators over several years. However, implementation of these changes alongside moderation of labour and regulatory costs will be required to restore buyer confidence and broaden the shallow buyer universe in the sector.

During the quarter the take private of Estia Limited by Bain Capital was confirmed and is likely to complete in December 2023. While this is an encouraging sign private capital is returning to the sector, the implied transaction value (as referred to in Sector Valuation Metrics) is at an historical low level and highlights the opportunistic nature of this transaction.

Therefore, the Manger is cautiously optimistic on the sector outlook overall but anticipates any changes will take at least 12-18 months to translate into an improvement to the opportunity to achieve an exit that is in the best interest of investors. The Manager remains focused on divestment options and other structures to extract value from the existing portfolio, including commencement of paying income distributions (should current earnings trajectory continue) from mid to late Calendar Year 2024 onwards.

Detailed operating metrics

Figure 5 – Key financial metrics[5]

Financial performance	Units	Quarter ending 30 June 2023	Quarter ending 30 September 2023
Consolidated group revenue	A$m	51.4	60.7
Consolidated group EBITDA	A$m	0.9	5.6
Financial position			**31 October 2023**
Net debt[6]	A$m		(33.5)
RADs held	A$m		276.7

5. Unaudited management accounts.
6 Net debt is calculated as interest bearing liabilities and statutory liquidity reserves less cash. A negative number denotes a net cash position (i.e., cash exceeds total external indebtedness and statutory liquidity reserves).

Figure 6 – Key occupancy metrics[7]

Spot occupancy (%)			
As at	30 June 2023	30 September 2023	Variance
Operating Facilities (SA)			
Hahndorf	84%	87%	+2.7%
Christies Beach	94%	93%	-(1.1%)
Klemzig	90%	93%	+3.4%
Rose Court	91%	93%	+1.9%
Churchill	93%	97%	+4.0%
Total	90%	93%	+2.5%
Greenfield Facilities (QLD)			
Caravonica	98%	97%	-(1.3%)
Edmonton	96%	97%	+0.1%
Edge Hill	95%	97%	+1.8%
Toowoomba	99%	96%	-(2.1%)
Cornubia	95%	96%	+1.9%
Ipswich	99%	96%	-(2.5%)
Total	97%	96%	-(0.4%)
Acquired Facilities (Jun-22)			
Southaven	78%	77%	-(0.7%)
Casa Mia	72%	75%	+3.2%
Chamberlain	87%	90%	+3.4%
Total	80%	81%	+1.1%
Acquired Facilities (Dec-22)			
Ashmore	90%	94%	+3.7%
Mandalay	88%	96%	+8.0%
Bangalor	83%	91%	+8.4%
Total	88%	94%	+5.5%

7. Unaudited management accounts.

More information

For more information speak to your financial adviser.

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