

9 May 2013

Senator Concetta Fierravanti-Wells,  
PO Box 886  
Wollongong NSW 2520

Dear Senator Fierravanti-Wells

Further to our meeting held on Wednesday 8<sup>th</sup> May 2013, as requested, please find enclosed the following:

1. Response on questions re Submission number 2 – Kalyna Care.

Our view of the submission is that RAD's will be included in the new Means Test, we agree with this.

2. We also enclose further evidence in the form of a financial model that can be adjusted to reflect different scenarios in relation to potential changes in bond cash flows.

Our submission reflected a 60% bond outflow.

This model can be adjusted to reflect the impact on any bed configuration that has accommodation bonds.

3. We have reviewed the Hansard Transcript and are happy with this.

Please note we have copied all Senators for the sake of expediency.

Yours sincerely

**Róss Johnston**  
Chief Executive Officer  
Regis Aged Care Pty Ltd

For and on behalf of the Aged Care Guild

CC: *Senators Boyce, Fierravanti-Wells, Furner, Moore, Siewert, Smith*  
*Guild Care Guild members*

*Enclosed: Accommodation Bond Model*

## Simple Capital Structure Model

### Potential Impact of Reforms on Bond Cashflows / Debt Covenants

- \* Input data / assumptions into **BLUE** cells in column B of "Inputs & Model" sheet only.
- \* Do not amend any other cells.
- \* Current inputs have been set to match inputs and assumptions used in Guild submission.
- \* Model focused on a specific single facility scenario however, an operator's actual net debt position can be used by adjusting "cost per bed" in B:14 to derive correct starting net debt.

Debt Metric	Assumptions / Inputs					Notes / Assumptions				
	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Beds	100	100	100	100	100	"100 bed" example				
Residents	95%	95	95	95	95	Occupancy assumption				
Bonds Held (% beds)	50%	35	25	17	12	50 single rooms / private ensuite, 25 twin rooms.				
Length of Stay (yrs)	2.0					Average length of stay				
% elect DAP	60%					% of new residents that elect a DAP rather than RAD				
Average Bond Value (\$)	300,000	300,000	300,000	300,000	300,000	Assume bond capping does not apply any downward pressure at any level				
<b>Total Bonds (\$)</b>	<b>15,000,000</b>	<b>10,500,000</b>	<b>7,350,000</b>	<b>5,145,000</b>	<b>3,601,500</b>	<b>Total bond pool at 30 Jun</b>				
Cost per bed (\$)	200,000	200,000	200,000	200,000	200,000	Total cost assumption for purpose of model. Amend i.e. backsolve if actual current net debt at a corporate level is required for an operator in C:18.				
Total Cost (\$)	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	Total funding requirements				
<b>Net debt (\$)</b>	<b>5,000,000</b>	<b>9,500,000</b>	<b>12,650,000</b>	<b>14,855,000</b>	<b>16,398,500</b>	<b>Net debt after existing bond pool deducted (ignoring capitalised interest / principal repayments)</b>				
Interest Cost (\$)	7%	350,000	665,000	885,500	1,147,895	Interest cost on net debt (simple calculation)				
Current EBITDA Cashflow / Bed (\$)	7,000	7,000	7,000	7,000	7,000	Current EBITDA cashflow assumption pre any additional DAP				
Current Operating Cashflow (\$)	700,000	700,000	700,000	700,000	700,000	Current EBITDA cashflow pre any additional DAP				
Additional DAP @ MPIR%	-	312,750	531,675	684,923	792,196	Additional operational cashflow from residents electing DAP instead of RAD				
New Operating Cashflow (\$)	700,000	1,012,750	1,231,675	1,384,923	1,492,196	Total cashflow used for debt covenants etc				
ICR	2.00 x	1.52 x	1.39 x	1.33 x	1.30 x	Interest cover ratio				
<b>ICR Covenant</b>	<b>1.75 x</b>	<b>OK</b>	<b>BREACH</b>	<b>BREACH</b>	<b>BREACH</b>					
Value for Security purposes										
Aged Care Facility	10,000,000	12,085,000	13,544,500	14,566,150	15,281,305	"Good operator" earnings of \$15k per bed + additional DAP capitalised at 15%				
Other (Equity)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	Other sources of security for debt (ie equity)				
	12,000,000	14,085,000	15,544,500	16,566,150	17,281,305					
LVR	42%	67%	81%	90%	95%	Loan to value ratio				
<b>LVR Covenant</b>	<b>55%</b>	<b>OK</b>	<b>BREACH</b>	<b>BREACH</b>	<b>BREACH</b>					
<b>Security Value per Bed Calculation</b>										
EBITDA	15,000	18,128	20,317	21,849	22,922	"Normal" management EBITDA assumption used by valuers				
Cap Rate	15.00%	15%	15%	15%	15%	Capitalisation rate used by valuers				
Security Value per Bed	100,000	120,850	135,445	145,662	152,813					