NZX Announcement

28 November 2022

Primary care provider, Third Age Health Services (NZX: TAH), has today reported its unaudited results for the six months to 30 September 2022 (1H23).

During the first half of the financial year, we were pleased to have been able to successfully execute on a growth strategy, while at the same time ensuring that our underlying work within the aged care sector has increased. The growth strategy has, however, come at a cost through the direct and indirect costs of both acquiring and consolidating business units, and this is acutely felt in the first half of this year.

Financial summary

Our core business of providing primary medical services into Aged Residential Care (ARC) settings saw strong organic growth with enrolled patients of 3,414, up 6.7% against the number of patients during the prior comparative period (pcp) as at 30 September 2021, and up 3.0% compared with the number of aged residential care patients enrolled with us at 31 March 2022. This increase drove organic revenue growth for the period of 16.7% on pcp to $2.8 million.

We have focussed on strengthening key relationships with our current and potential aged residential care customers and as a result we now have a large backlog of demand for our services. The future rate of growth is dependent on our ability to improve productivity and utilisation, and to recruit additional clinical practitioners.

General practices which we owned during the first half of the last financial year (1H22) experienced strong organic growth during the first half of this financial year (1H23) with enrolled patients at 30 September 2022 of 3,425 up 14.2% on pcp, and 7.2% compared to 31 March 2022. General practice revenue in total of $1.8 million is up 304.3% on pcp and 137.0% against the 6-month period ended 31 March 2022. Organic revenue growth was 23.5% on pcp, with the remainder contributed by practices that were acquired. During 1H23 we completed the acquisition of an additional general practice in Auckland and partnered to commence a new green fields general practice in Christchurch.

While it has been pleasing to see the work of the team reflected in increased revenue as well as the improvements made to our systems and processes, it is a disappointment to not yet see these improvements reflected in net earnings. During this half our net earnings after tax decreased 51.8% on pcp to $0.3 million.

There were three key factors which lead to this decrease:

First, we needed to front load resources to bolster capabilities and infrastructure that was not previously in place but was needed to protect existing business and provide a platform from which to grow sustainably and profitably.

Second, the integration of the practices acquired this year was slower than planned which contributed to lower earnings. In addition, there were one off legal and acquisition related costs incurred of $50k.

The third factor is that reported net earnings were impacted by an increase in the amount of non-cash amortisation charges arising as a result of purchase accounting rules. Amortisation charges are taken to reflect the decrease in value of intangible assets recognised when new businesses are acquired. While appropriate in some cases, the concept of recognising these charges against intangibles such as patient relationships and funding agreements does not, in our opinion reflect economic reality. This amounted to a reduction in NPAT of a further $60K.

Shown below is Net Profit after tax adjusted for Amortisation (NPATA) which we believe better reflects underlying earnings.

	30 September 2022 (Unaudited) $000	**30 September 2021 (Unaudited) $000**
Net profit after tax	324	672
Add back amortisation of intangibles (net of 28% tax)[1]	60	19
Net profit after tax and before amortisation	**384**	**691**

1. With the amortisation of intangibles of $84k for 1H23 ($27k for 1H22) there is a corresponding deferred tax credit calculated at 28%.

Challenging environment

Aged care is undergoing a challenging period over the short to medium term. The well-acknowledged health workforce crisis, which has been compounded by the slow border openings and immigration settings, combined with lower than needed funding outcomes for aged care providers, continues to impact the sector. We are acutely aware that the nursing workforce shortage has impacted some aged care clients, with several having to reduce bed numbers. In some instances, this has had a flow on impact for us with a slowing of patient enrolments from some facilities who are not able to operate at full capacity. While this causes some issues in respect to contract rates and medium-term patient numbers, it does need to be noted that all aged care providers must have a General Practitioner or Nurse Practitioner available to their residents.

The workforce crisis also extends to clinicians, and the shortage of clinicians has impacted our ability to grow in some regions where we have a backlog of demand.

Additionally, although we believe the business retains its longer-term pricing power it is not completely immune to the effects of high inflation in the near term.

Despite these short to medium term sector challenges, the longer-term outlook for the business remains positive as an aging population will continue to drive increased demand for quality primary care medical services. Our business is well positioned to capture additional market share due in part to the very strong relationships with existing clients, who themselves have significant growth plans. In addition, we are forging new client relationships in the sector.

Our people

Delivery of front-line clinical care during the pandemic has not been easy and our team adapted well to the many challenges. We are grateful to have a high performing team with many long-standing practitioners who are dedicated to providing the best clinical care.

Our people are our greatest asset, and we are working to equip them with the tools to systematically focus on continuous improvement, customer satisfaction and profitable growth.

Performance improvement

While we have outlined a number of factors that have influenced the results for this half year, we do need to also state that we are not satisfied with the level of net earnings achieved and are expending every effort to see them returned to a proper level.

A focus on operational efficiencies in our newly acquired general practices is showing promising early results. Additionally, a plan to rebalance resources across the group will deliver a reduction in annualised costs of at least $150k p.a. from January 2023.

We have several new clinicians starting in the second half of this financial year which will enable us to increase patient numbers in general practice and share these resources to fill unmet need with our aged care clients. Following further success in recruitment of clinicians we will be able to meet the strong pipeline of new business which is expected to deliver profitable growth.

We expect to achieve improved profit margins and net earnings in the second half of this financial year with both expected to be well ahead of those achieved in the first half.

We do not measure success by the overall size of your company, or the total reported profit. Our goal over the long term is to maximise both returns on capital and the average annual rate of increase in intrinsic value per share.

EastMed Doctors

The business acquired a majority share in EastMed Doctors, a key acquisition in St Heliers Auckland, which was settled after period end on 3 October 2022, and early results are in line with expectations.

EastMed Doctors is ideally located next to Ryman's premium Grace Joel Retirement Village and in easy reach of eight aged care facilities, representing opportunity for growth.

CFO transition

The Board is pleased to announce that Denice Bennett has been appointed as the new Chief Financial Officer (CFO) and joins the company in January 2023. Neil Hopkins, who joined the business as Acting CFO in mid-2021 has indicated he plans to reduce his work commitments next year. The Board and management wish to thank Neil for his contribution in guiding and supporting the business following NZX listing and through our period of growth over the past twelve months.

The transition of the CFO will take place in the early part of 2023, with Neil's support. Denice is a Chartered Accountant with over 20 years' experience in a range of CFO and management roles and is currently Acquisitions and Integration Manager at Tāmaki Health.

Release of results

Going forward, to ensure all shareholders have adequate time to read and thoughtfully digest the progress of the company before the market opens, we plan to release half-year and full-year updates post market close on a Friday afternoon.

Dividend

In line with our dividend policy the Board has declared a fully imputed dividend of 2.45 cents per share.

John Fernandes	Tony Wai
Chairman	CEO

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