# FY23 Results Update: Third Age Health Services

Dear Shareholders,

We are pleased to report that we have made significant progress in executing our growth strategy and delivering on our commitment to providing exceptional primary medical services to the Aged Residential Care (ARC) sector and in our General Practices.

## Performance Improvement

During the first half of the year, we completed implementation of resource and infrastructure that was previously lacking but crucial for stability in our existing business and establishing a sustainable operating model for profitable growth.

Addressing client churn and early departures of clinicians presented a significant challenge. However, we have successfully reversed this trend. Over the past year, we have not only achieved net growth in ARC clients and clinicians but also seen a marked improvement in client engagement.
Despite the challenges faced during the first half of the year, the business has demonstrated remarkable resilience and adaptability, and we are encouraged by the improved performance in the second half, which saw our results outpace those of the first half. This is a testament to the dedication of our team and our focus on operational efficiency, continuous improvement, and creating value for our customers.

Our improved performance in the latter half of the year was driven by a combination of factors, including the ongoing integration of the acquired general practice clinics, resource re-balancing which will reduce cost by $150k per annum as signalled in the first half announcement, and the recruitment of additional clinical practitioners to meet the growing demand for our services.
We have been able to increase our organic revenue growth rate and improve our gross profit margins demonstrating the strength of our core business and our commitment to delivering high-quality primary care services. Furthermore, our focus on operational efficiency and continuous improvement is yielding promising results, enabling us to expand our services and reach new customers while increasing profitability.

Our focus on clinical quality and customer value has resulted in a consistently improving Net Promoter Score, securing 4 additional ARC facilities as customers, and significantly reducing regrettable exits of facilities by 6 (FY23 3 regrettable exits, FY22 9).

## Clinical Workforce

We have improved the acquisition and retention of clinicians by taking steps to make it easier for them to work for us. We ended the year with 68 clinicians up 30 (79%) from the prior year with an increase in the number of clinicians who now work for us across both ARC and GP settings. The ability to work in both settings is both more appealing for clinicians and builds a level of resiliency in our business.

While we are making progress in growing our team of clinicians, we cannot ignore the big picture. The primary care sector has some tough challenges ahead. There is no simple solution here. New Zealand needs to train more doctors, right here in our own medical schools. New Zealand needs to make it easier for nurses and doctors from overseas to come work with us, and need to make sure our nurses in primary care get paid fairly.

## Kaizen / Continuous Improvement

During the second half of the fiscal year, we commenced the roll out of Kaizen (aka Lean) which is a management philosophy that seeks to eliminate waste and create a culture of continuous improvement. It has been successful in a range of industries, and we believe it can help your company become more competitive and profitable.

Kaizen is based on the simple principle that waste is anything that does not add value to the customer. It is a comprehensive strategy that emphasises not just cost reduction, but also enhancements in quality, productivity, and efficiency. Our aim is for Kaizen to become an integral part of our operational DNA.

To date most processes in our ARC business have been manual with significant waste across the value stream. Following a thorough review, we recently commenced digitising a range of these processes. Digitisation will reduce waste and make these processes easier, better, and faster for our customers and our team. We expect to roll this digital platform out to a few pilot customers from early 2024.

## Capital Allocation

Our approach to capital allocation is guided by the $1 rule, a principle first articulated by Warren Buffett in his 1983 letter to shareholders. We will retain earnings only when we see a reasonable prospect of creating at least one dollar of market value for every dollar retained, assessed over a rolling 5-year period. This approach ensures that we continually strive to generate high returns on any capital we retain.

Currently, we distribute 75% of our earnings as dividends, paid semi-annually. To accelerate returns to shareholders, we have decided to shift from semi-annual to quarterly dividend payments going forward.

During the past year, the idea of initiating a share buyback was considered. However, as two shareholders each hold more than 20% of the issued shares, we found ourselves limited by the provisions of the Takeover's Code. Looking ahead, we may contemplate seeking the consent of shareholders to commence a share buyback.

We are mindful of maintaining a strong balance sheet and the financial flexibility that comes with it. To that end, we plan to deleverage with a target Debt-to-EBITDA ratio of 1x.

## A Unique Business

We believe you own a uniquely high-quality business, and we would like to explain why. First, we have a business model that brings in recurring and predictable revenue streams. This provides a stable financial bedrock.

Secondly, we operate in a sector with long-term growth prospects due to an ageing population. This demographic shift translates into a growing demand for our services in the years to come. It is a trend we are well-positioned to benefit from, and one that provides us with a clear and visible path for growth.

Thirdly, we play a small but crucial role in a larger value stream. ARC facilities cannot operate without the services we provide. Our indispensability to these facilities underscores the critical nature of our work and reinforces our importance in the healthcare ecosystem.

Fourthly, we have been able to generate significant free cash flow with high returns on tangible capital. That allows us to invest in growing the business and widening our moat while consistently returning capital to shareholders.

Finally, there remains potential for opportunistic consolidation of other providers of medical services to ARC. We can take advantage of these opportunities as they arise, which should only strengthen our position in the market.

## Alignment of Interests

As an owner-oriented company, we seek to cultivate an alignment of interests with shareholders. To this end we encourage share ownership among our directors and management. Over the year Board members and management acquired a further 96,946 shares bringing their collective ownership to 45% of the company's issued shares. That is not just a vote of confidence - it is us putting our money where our mouth is.

Management's incentive scheme has also been revamped. The Short-Term Incentive is now tied to the achievement of organic revenue and profit growth. Similarly, the Long-Term Incentive options are vested based on the realisation of Total Shareholder Return targets. This ensures that our management's success is linked to the company's performance, further aligning management with shareholders.

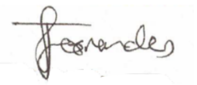
## Outlook

Looking ahead to FY24, we are poised for an exciting period of profitable organic growth. Our investments thus far have been carefully calibrated to fuel future growth, and we are focussed on reaping the benefits of these decisions with increased returns on capital.

Turning to our financial outlook, we expect both our organic revenue and underlying profit in FY24 to outpace those of FY23. We expect performance in the first half of FY24 will not only surpass the results of the second half of FY23 but also set a promising tempo for the remainder of the fiscal year. Our long-term goal remains to maximise returns on capital and the average annual rate of increase in intrinsic value per share.

In conclusion we want to express our heartfelt gratitude to our committed team and to you, our shareholders, for your continued support.

Sincerely,



John Fernandes
**Chairman**

Tony Wai
**CEO**