

The Manager
Company Announcements Office
ASX Limited
20 Bridge Street
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7 April 2017

Estia Health Limited (ASX:EHE): Update in relation to Sentinel Portfolio Management

Estia refers to its announcement of 5 April 2107 regarding an investor update published on that date by Sentinel Portfolio Management Pty Limited (**Sentinel**).

Estia has today received from Sentinel a copy of a further investor update dated 7 April 2017, a copy of which is attached.

Estia reiterates that there has been no other contact with Sentinel or any of the other parties mentioned in the investor update. No proposal, formal or informal, and no communications have been received from any of these parties concerning the proposed transaction mentioned in the Sentinel Investor update. The board of Estia advises shareholders to take no action as a result of this information at this time.

Further announcements will be made as required.

ENDS

5 April 2017

Dear Investor

It gives me great pleasure to present this inaugural Sentinel Health Trust investor update.

Sentinel Portfolio Management Pty Ltd (**Sentinel**) as manager of the Sentinel Health Trust (**Trust**) would like to update investors on the progress of the Trust's investments.

The Sentinel Health Trust was established to fund investments that possess predominantly property assets with particular consideration given to investment opportunities that:

- are competitive and have sustainable operations;
- possess quality management teams;
- are currently undervalued by the market; and
- provide Sentinel with the potential to secure a substantial or controlling interest.

Sentinel had identified two investment opportunities that had the potential to meet this criteria and fit within the Trust's investment philosophy and is pleased to advise investors that the Trust has acquired a strategic holding in ASX listed aged care provider Estia Health Ltd ACN 160 986 201 (ASX: EHE) (**Estia**).

Estia is one of the largest private providers of residential aged care services, operating 68 residential homes across Australia. Estia was listed on the ASX in December 2014 and presently has 260,602,749 ordinary shares on issue. Estia's current share price (as at 21 March 2017) was \$3.07 with a market capitalisation of approximately \$800 million.

Sentinel Investment Management Limited as trustee of the Trust (**Sentinel Investment**) currently holds 13 million shares or 4.988% of the issued shares in Estia. Sentinel Investment has acquired its position in Estia at an average price of \$2.80 per share which based on the current Estia share price¹ represents:

- a discount of 8.79% (or 27 cents per Estia share) to the current share price; and
- an increase in total investment value of \$3.51 million.

According to publicly available information, Estia has recently undergone a change in strategic direction to cease undergoing acquisitions and focus on reinvesting in its existing facilities in order to improve occupancy levels (current occupancy levels are 93%).

The refocus on improving existing facilities and strengthening Estia's balance sheet was underpinned by a capital raising in late 2016 of \$136.8 million. This capital raising has strengthened Estia's financial position, by reducing its \$223.7 million in debt levels from 2.1 times its Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**) to 1.6 times EBITDA².

Sentinel's identification of Estia as an opportunistic investment has been endorsed by Estia's improved financial performance for the first half of the 2017 financial year (1H FY2017). Key performance metrics for the 1H FY 2017 include:

Revenue – \$263.1 million (**up 5%** on 2H FY16 of \$250.4 million);
EBITDA – \$43.0 million (**up 26%** on 2H FY16 of \$34.1 million);
NPAT – \$19.8 million (**up 85%** on 2H FY16 of \$10.7 million);
Operating cashflow – \$98.7 million (**up 68%** on 2H FY16 of \$58.9 million);
Earnings per share – 10.3 cents (**up 81%** on 2H FY16 of 5.7 cents)³.

Sentinel is currently exploring strategic options to further enhance the value of this investment by entering into a binding Heads of Agreement with a leading aged care facility operator (**Operator**) with a view to the Operator acquiring the aged care operations of Estia (**Proposed Transaction**). The broad terms of the Proposed Transaction would involve:

¹ Estia share price as at 21 March 2017 of \$3.07

² Estia Half Year results presentation (1H FY2017) dated 23 February 2017

³ Estia Half Year results presentation (1H FY2017) dated 23 February 2017

1. Sentinel Investment acquiring a controlling interest in Estia;
2. Sentinel Investment entering into a formal agreement with the Operator requiring the Operator to acquire the operating business of Estia (**Operations**) for 60 of the 68 sites (**Prescribed Sites**) for \$300 million plus the assumption of specific liabilities. A potential buyer for the Operations and the real property for the remaining sites has also been identified with the estimated value being \$60 million;
3. the Operator and Estia (procured by Sentinel Investment) entering into and completing a formal agreement for the sale of the Operations to the Operator.

Sentinel is assessing various funding options to enable it to secure a controlling position in Estia and is well advanced in discussions with potential third party financiers.

Completion of the Proposed Transaction along the terms outlined above (and subject to satisfaction of certain conditions precedent including the conditions below) would result in Estia, in respect of the Prescribed Sites:

1. selling its aged care operations; and
2. maintaining its real property holdings on a lease back arrangement, to the Operator.

The key terms of the lease are contemplated to include the following:

1. **Commencing Rent:** \$40million per annum⁴;
2. **Lease term:** initial term of 24 years with further terms of 24 years (and a final term of 27 years) up to a maximum of 99 years;
3. **Outgoings:** the lessee (Operator) to pay for all outgoings (including rates, taxes , repairs and maintenance (excluding structural work));
4. **Right to purchase:** the lessee has the first and last right to purchase any aged care facility that Estia proceeds to sell.

The lease structure ensures that the Trust will participate in the future development upside of the real property.

While these negotiations are advanced and are the subject of a binding Heads of Agreement, the Proposed Transaction is subject to:

1. the parties negotiating and entering into formal transaction documentation;
2. regulatory approval;
3. Estia shareholder approval; and
4. Sentinel Investment being in a position to procure Estia undertake the Proposed Transaction.

For these reasons whilst the Proposed Transaction is an exciting opportunity it is currently incomplete, conditional and therefore speculative.

Sentinel will continue to progress its negotiations and critically assess its investment options in Estia (including any investment funding arrangements) and will update its investors of any material developments.

Investor warning

This information is being provided to investors in order to provide investors with information to consider when making a decision about whether to invest in the Sentinel Health Trust only. Investors should obtain their own independent professional advice in relation to an investment decision in any entity.

Investors should be aware that, whilst indefinite and highly speculative, the information in this update may constitute inside information and as such if you trade in, procure another person to trade in, or disseminate this information to another person for the purposes of trading in Estia, you may be in breach of the insider trading laws which can constitute a criminal offence.

⁴ Based on all Estia aged care facility sites. The Operator is entitled to exclude certain aged care sites not meeting accepted criteria.

7 April 2017

Dear Investor

As you may be aware, the inaugural Sentinel Health Trust (**Sentinel**) investor update dated 5 April 2017 (**Previous Update**) detailing its investment in ASX listed aged care provider Estia Health Ltd (ASX: EHE) (**Estia**) has created significant media and market interest as a consequence of Estia's release of portions of the Previous Update to the ASX on 5 April 2017 (**Estia Release**).

The Estia Release is located at: <http://www.asx.com.au/asxpdf/20170405/pdf/43hb3dthgp7b92.pdf>

A full copy of the Previous Update is **attached** to this correspondence.

Sentinel, as trustee of the Sentinel Health Trust (and holder of an equity interest in Estia), has prepared and distributed this further update to ensure that market transparency is maintained and that both Estia and investors in the Trust are aware of the nature and status of:

1. Sentinel's investment in Estia; and
2. Sentinel's negotiations with the third party the leading aged care facility operator (**Operator**) seeking to acquire the aged care operations of Estia (**Proposed Transaction**) - the details of which are summarised in the Previous Update and below.

To ensure the market is fully informed, and market transparency is maintained, Sentinel will distribute this investor update contemporaneously to Estia.

Sentinel is pleased to update and advise that the Operator described in the Previous Update is RSL Care RDNS Limited (**RSL Care + RDNS**), an organisation synonymous with the active promotion of the wellbeing and independence of all older Australians.

RSL Care + RDNS has a 200 year combined history of providing aged care in Australia; supporting more than 100,000 people every year across Australia and New Zealand and is one of Australia's largest independent social enterprises. For these reasons, Sentinel is confident that (should the Proposed Transaction complete) RSL Care + RDNS would be well placed to assume and successfully discharge the aged care services provided by Estia.

As highlighted in the Previous Update, Sentinel has entered into a binding heads of agreement with RSL Care + RDNS and, on this basis, considers RSL Care + RDNS an associate for the purposes of the Corporations Act 2001 (Cth).

Key features of the Proposed Transaction (as highlighted in the Previous Update) include:

1. Sentinel Investment acquiring a controlling interest in Estia;
2. Sentinel Investment arranging to sell to RSL Care+ RDNS the operating business of Estia (**Operations**) for 60 of the 68 sites (**Prescribed Sites**) for \$300 million plus the assumption of the following liabilities:
 - a. Estia's refundable accommodation deposits and independent living unit entry contributions; and
 - b. employee entitlements of the Estia operating business;
3. RSL Care+ RDNS and Estia (procured by Sentinel Investment) entering into and completing a formal agreement for the sale of the Operations to RSL Care+ RDNS.

The Proposed Transaction, subject to satisfaction of certain conditions precedent including the conditions below, would result in Estia, in respect of the Prescribed Sites:

1. selling its aged care operations to RSL Care + RDNS; and
2. maintaining its real property holdings via its lease back arrangement, with RSL Care + RDNS.

The key terms of the lease are contemplated to include the following:

1. **Commencing Rent:** \$40million per annum¹;
2. **Lease term:** initial term of 24 years with further terms of 24 years (and a final term of 27 years) up to a maximum of 99 years;
3. **Outgoings:** the lessee (RSL Care+ RDNS) to pay for all outgoings (including rates, taxes , repairs and maintenance (excluding structural work));
4. **Capital Works:** the landlord is responsible for any payment or contribution to the capital works undertaken on the leased facilities;
5. **Right to purchase:** the lessee has the first and last right to purchase any aged care facility that Estia proceeds to sell.

The Previous Update identified a number of conditions that must be met in order for the Proposed Transaction to be successfully completed.

These conditions include:

1. RSL Care and Sentinel negotiating and entering into formal transaction documentation;
2. All regulatory approval;
3. Estia shareholder approval (if required);
4. RSL + RDNS Board Approval; and
5. Sentinel Investment being in a position to procure Estia undertake the Proposed Transaction.

These conditions are not in the control of Sentinel, are not currently met, and are significant.

For example Sentinel Investment is not in a position to procure Estia undertake the Proposed Transaction.

Sentinel stresses that you should not discount these conditions or assume that each will be met to Sentinel's satisfaction or at all.

For these reasons the Proposed Transaction is an exciting opportunity but it is **incomplete, conditional and speculative.**

The Previous Update advised Sentinel will continue to progress its negotiations and critical assessment of its investment options in Estia and will update its investors of any material developments.

Sentinel is cognisant of its obligations to its investors and will (in conjunction with advancing it negotiations of the Proposed Transaction) critically evaluate its equity holding in Estia against prevailing market conditions to ensure it is discharging its obligations to maximise returns to investors.

To ensure maximum return to Sentinel investors, Sentinel must maintain and reserve its right to divest some or all of its equity holding in Estia, maintain its current holding or, otherwise increase its relevant interest in Estia (by way of direct investment or any other means available to it).

On this basis, on 6 April 2017, Sentinel disposed of 535,517 Estia shares out of its total holding of 13 million shares. Sentinel secured an average sale price of \$3.25 per share which, based on Sentinel's average acquisition price² represents a return of 16.07% (or 25 cents per Estia share sold) before fees and associated costs.

Following this disposal, Sentinel holds approximately 4.78% of Estia's total issued capital. Sentinel will continue to assess its Estia holding (and any other investment in the Trust) against its investment criteria which includes, amongst other matters, the prevailing trading price for Estia securities, with a view to maximising investor returns. Any change in Sentinel's relevant interest in Estia does not necessarily indicate or infer that Sentinel will proceed or will not proceed with the Proposed Transaction.

¹ Based on all Estia aged care facility sites. RSL Care is entitled to exclude certain aged care sites not meeting accepted criteria. Based on the proposed 60 sites identified by RSL + RDNS for acquisition, the commencing rent will be approximately \$35 million per annum.

² Sentinel's average acquisition price for its holding in Estia is \$2.80 per Estia share

Sentinel will continue to update its investors on material developments in relation to the Proposed Investment and will discharge its obligations in relation to its relevant interest in Estia as required under the Corporations Act 2001 (Cth).