Aged care Operator beefs up board with experience before $500m float

Japara recruits heavyweights

Nick Lenaghan

Aged-care operator Japara has recruited a blue-chip board, to be chaired by **Linda Nicholls**, as it prepares for a $500 million float later this year.

Ms Nicholls previously chaired Healthscope and sits on the Fairfax Media board, along with other positions. She will be joined by Macquarie Atlas Roads director **Richard England**, AustralianSuper director **Tim Poole** and former APN Property Group chief **David Blight**.

Pre-marketing for the proposed float, which is targeting a raising of up to $400 million, starts this week with an analyst presentation to fund managers in Australia, Asia and Europe.

The new company brings together Japara's operating business with its property trust and will be known as Japara Healthcare, sources said.

The listed company will be seen primarily as a growth stock – typical of industrial equities – rather than the yield play associated with more traditional property stocks.

Even so, the aged-care operator will offer a generous yield of between 5 per cent and 6 per cent, well ahead of its health sector average, sources said.

By comparison, healthcare peers generally deliver much lower dividend yields, such as Ramsay on 1.7 per cent. In New Zealand, comparable stocks would be Ryman Healthcare on a 1.4 per cent yield and Summerset Group on 1.1 per cent.

The listed Japara will have about $300 million of property on the balance sheet, bringing together facilities now held in an existing property trust, along with three facilities on the operator's balance sheet.

In all there will be 35 facilities – three of them under lease – under Japara's control, with about 3000 beds.

Aged-care operators are trading on earnings multiples of about 10 to 11 times. Japara's forecast EBITDA for 2015 is about $40 million, according to sources following the proposed raising.

Linda Nicholls, AO:

Director, Fairfax Media
Chairman, Yarra Trams
Trustee, Harvard Business School Alumni Board
Director, Sigma Pharmaceuticals
Fmr chairman, Healthscope

Richard England

Chairman, RedBalloon
Director, Macquarie Atlas Roads
Chairman, Chandler Macleod
Director, Allianz Australia
Fmr director, Healthscope

Tim Poole

Director, Newcrest
Director, AustralianSuper
Director, LifeStyle Communities
Fmr chairman, Asciano
Fmr MD, Hastings Funds

David Blight

Fmr CEO and MD, APN Property Group
Fmr director, APN Property
Fmr MD, ING Real Estate Investment Management

Japara's earnings growth for fiscal 2015 is expected to 20 per cent, on the back of the imminent deregulation in the sector, further federal government support, and the operator's own brownfields developments.

The Japara float, which is being led by Macquarie Capital, comes as a broader wave of activity and consolidation works through the sector.

Those favourable industry dynamics – underpinned by demographics and regulatory certainty – are expected to key themes in the pitch to domestic and offshore investors.

The number of Australians aged 85 and over is forecast to double in the next 20 years.

Residential aged-care beds are expected to grow to 265,000 from the current 190,000 to meet demand.

There are now about 1300 operators controlling some 2700 facilities. The largest player, Bupa Care, has only 3 per cent of the sector.

As a result, there is plenty of prospective upside for a well-capitalised player to accumulate acquisitions in the fragmented sector.

> **The listed Japara will have about $300m of property on the balance sheet, bringing together facilities held in an existing property trust along with three facilities on the balance sheet.**

Industry players say the benefits of scale flow through to the provision of services and care to aged-care residents.

Another plank in the Japara investment thesis will come into play from July this year, as a degree of deregulation in the sector's funding structure of is introduced.

Overall, EBITDA in the sector is expected to grow by 24 per cent following some deregulation of the accommodation bond funding model.

Macquarie will be joined by CBA Equities and Morgans for the raising, with a prospectus to be lodged by early April.

About $350 million to $400 million will be the target, depending on the extent to which existing investors in the unlisted trust and the operator's owners wish to cash out.

A substantial portion of the raising will be used to pay off $150 million in borrowings, allowing the new vehicle to list ungeared.

Activity in the sector has spiked in the past 18 months as institutional capital has flowed in, with landmark deals such as Archer Capital's $270 million acquisition of Lend Lease's Primelife aged care business.

Quintessential buys A-grade NSW complex

Nick Lenaghan

Boutique fund manager Quintessential Equity has acquired an A-grade industrial property at Ingleburn, in NSW, for $13.8 million from AMP Capital, which was acting on behalf of UniSuper.

The property comprises a 9928-square-metre warehouse and single-storey office, completed in 2002, which occupies just 15 per cent of the land.

As a result, the property has strong potential for further development, with more than 44,000 square metres of surplus land.

A three-year lease is in place to Schneider Electric (Australia), a subsidiary of Schneider Electric.

Quintessential Equity director Shane Quinn said the Melbourne-based fund manager was attracted to the property for its significant value-adding opportunities.

"We plan to work with the existing tenant to meet their current and future accommodation needs," he said.

"The longer-term strategy for the property, should the tenant not choose to stay at this location, is to increase the value by extending the existing warehouse facility and subdividing and selling some or all of the vacant land.

"This will allow us to extract additional value and increase the return to our investors."

The property, at 1 Inglis Road, is near the Macarthur Intermodal Shipping Terminal. It is also close to the proposed Moorebank Intermodal Terminal project in south-western Sydney.

The transaction was handled by Colliers International's Gavin Bishop.

Quintessential's current portfolio of commercial office, industrial and development properties is worth more than $200 million.

The boutique syndicator has shown it is willing to divest assets when the right opportunity arises.

In January, it sold a Parramatta office building for $28.75 million, which it had acquired for $18.5 million in December 2009 and then upgraded.