Companies

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Estia growth story gets old, fast

Property The firm has major issues around strategy and financials.

Matthew Cranston

Australia's ageing population is seen as a river of gold for new business – from campervans and holidays to healthcare and funerals, But if a company doesn't get its strategy, culture and financials right, not even this magic wave of money can stop it from self-imploding.

In the past week this is exactly what has happened to Estia Health, Australia's fourth-largest aged care operator and developer, with 5782 aged care places across the country.

The company, which operates 69 facilities and has a major development pipeline, has lost 50 per cent of its market value this year. Its the worst performing stock on the ASX 200 – and hedge funds are still shorting it.

After reporting its financial results on Monday, which were well short of the guidance given by management only a few months earlier in mid April, Estia's stock dropped 17 per cent.

The next day, a round of downgrades by analysts sent the stock down a further 16 per cent.

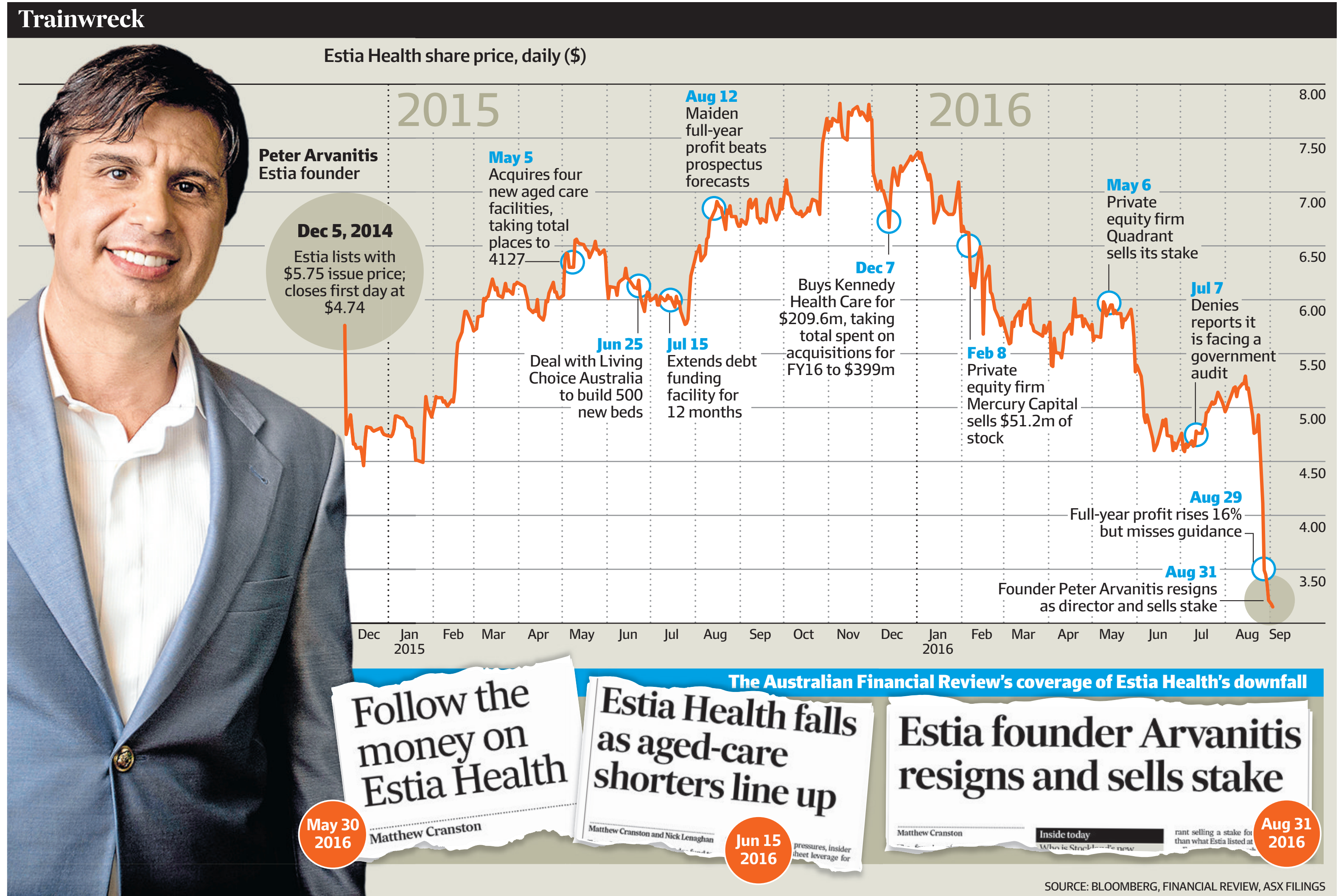
On Wednesday, the company's founder, Pater Arvanitis, resigned and saw his entire holding in the company sold off.

"I am not a director – it is best you do not contact me again," he said moments after resigning on Wednesday.

By the end of the stock had fallen from $4.92 to $3.15, including a 6 per cent fall yesterday.

Arvanitis is not the only one to have sold out.

In May, Quadrant Private Equity, which backed the float of Estia in 2014, sold 16 million shares at $5.56, below Estia's issue price of $5.75. The following trading day it sold out completely,



with another 14.84 million shares offloaded also at $5.56.

Private equity's sell out was the beginning of what has been nothing short of a disaster for the company.

In an analysis of Estia later that month, several major issues were raised surrounding the company's strategy and financials.

The main issues include Estia's strategy of arguably expensive acquisitions and a reliance on reclassifying residents' level of health, which is directly linked to the level of funding Estia receives from the federal government for each resident it cares for. This funding is known as Aged Care Funding Instruments, or ACFI.

The federal government has cut back the funding for these instruments and is intensifying its scrutiny of how residents' health is reclassified. Yesterday the government also released new information showing a tightening around the rules on additional fees aged care service providers can charge for additional services and refurbishments.

A financier who met with Arvanitis more than five years ago when he was building the business that would eventually list as Estia says Arvanitis' strategy was too heavily focused on just reclassifying residents and less so on developing new facilities from the ground up. "It was all about improving

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Hedge fund shorting Neilson

Investing Morphic has pitted these two titans against each other.

Jonathan Shapiro

Kerr Neilson and Hamish Douglass have found fame and fortune in funds management.

But one Australian hedge fund has pitted these two titans against each other in an unusual trade. It's one that highlights their divergent approaches to stock picking and managing money, but also the structural challenges facing an industry trained to identify deficiencies in others.

Morphic Asset Management disclosed to investors in its $115 million Global Opportunities fund on August 8 that it was shorting shares in Neilson's Platinum Asset Management, offset by a long position in Douglass' Magellan Financial Group. It's a clear expression of faith in Douglass over Neilson, one of Australia's smartest and wealthiest men.

When *AFR Weekend* approached Morphic to understand the rationale behind the position, the fund reluctantly agreed to explain why it was betting on a Platinum share price fall.

What becomes apparent is that the trade forms part of a larger, bearish bet against Morphic's own industry, which it believes is under severe assault from the rise of low-cost competition.

Morphic's thesis is that many asset managers aren't responding quick enough to the challenges they are facing. The rise of passive funds means fees are falling fast. That's making it more important for active managers to beat the market – but no easier.

The fee pressure is real, with actively managed equity funds charging 20 per cent less since 2000, with fees falling from 106 basis points to 86 basis points, according to EY. Meanwhile, fees on index bond and equity funds have more than halved.

That, combined with $US1 trillion of flows into passive funds and $US700 billion of outflows in active funds since 2009, has left a once powerful industry starved of profits.

This is a world where sales and distribution is as critical as delivering returns. And it's a world where institutions may write the big cheques but also make the big withdrawals when things don't go their way.

The devastating trends have not been felt by two of Australia's most celebrated managers, who have expanded their assets and their profits over that time.

By tapping Australia's vast pool of mom and pop investors by offering them exposure to large and liquid global companies to which they are under-exposed, Platinum and Magellan have grown assets under management to a combined $60 billion.

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Harding's Rio exit catalyst for Aurizon CEO position

Infrastructure

Jenny Wiggins

Aurizon wanted the "very best candidate" for its next chief executive and seized the opportunity to nab former Rio Tinto executive Andrew Harding when he left the miner two months ago, chairman Tim Poole has revealed.

"Government organisations typically take many cycles to get match fit and we wanted the next CEO to be someone who has demonstrated a clear track record of being able to transform organisations," Mr Poole told *AFR Weekend* after confirming Mr Harding's appointment, which was foreshadowed by *The Australian Financial Review* last month.

"Andrew's record in that is stellar."

The 49-year-old Mr Harding, who spent 24 years at Rio Tinto, most recently running its iron ore business, finished his career with the miner on July 1 following a management reshuffle.

Aurizon's board had been considering a successor for Mr Hockridge, who has been running the rail group since late 2007, since the start of the year, but did not have a fixed timeframe, Mr Poole said. "It's been a candidate-led process ... in more recent times, some very-high-quality candidates have emerged — including Andrew – and when that happened, we acted," he said.

Mr Hockridge, a former BHP executive who will leave in December with a 12-month termination payout, had been very "gracious" about the process, Mr Poole said.

"Lance has done a terrific job over almost nine years, but in transformation you need several sets of CEOs to take you through that journey and now's a logical time for the baton to be passed."

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