ASX ANNOUNCEMENT

GATEWAY LIFESTYLE

27 February 2017

GATEWAY LIFESTYLE GROUP (ASX: GTY) 1H17 RESULTS

Key Highlights

- **Rental revenue up 27% to $27.3 million** (1H16 $21.5 million) driven by long-term site rental revenue which increased to $22.8 million (1H16 $17.4 million) with 6,277 long term occupied sites as at 31 December 2016
- **Statutory net profit after tax up 9.8%** to $20.1 million, influenced by net gain in fair value of $4.7 million, offsetting the 1H17 lower contribution from home settlements
- **Underlying net profit after tax down 13.0%**:
  - Achieved 92 home settlements in 1H17 (1H16: 104) with an anticipated strong weighting of home settlements to 2H17 as previously announced
  - Underlying net profit after tax includes a net income tax benefit of $2.2 million, reflecting the anticipated 2H17 profit weighting. The benefit is expected to unwind to between nil and $1 million for FY17
- **2H17 profit weighting of 65%** attributable to the home settlements profile across our portfolio.
- **Strong cash flow conversion** with 96.6% underlying cash flow conversion for the period
- **Balance sheet positioned for growth** with $110 million debt capacity as at 31 December 2016
- **Interim distribution unchanged** from 19 December 2016 announcement at 3.5 cents per stapled security
- **Revised FY17 guidance,** assuming no material change in market conditions:
  - Home settlements range of 260 to 290
  - Underlying NPAT, expected to be approximately $44.8 million, in line with FY16
  - Distributable earnings expected to be approximately $43.2 million, up 12% on FY16
  - Distribution policy unchanged at 65% to 85% of distributable earnings

Financial Results

CEO, Trent Ottawa said: "During 1H17 we have continued to grow our long-term rental income base through the sale of new homes and acquisitions."

"The Group's long-term rental revenue base increased by 31% or $5.4 million during the half year and reflects the larger number of long-term sites now occupied and organic growth in the long-term average weekly site rent of 3.4%."

"Strong enquiry numbers have seen home settlements and committed sales continue to build over the period to a combined total of 203 as at 24 February 2017. This trend together with our available home inventory on the ground gives us confidence in reaching our home settlement targets for the year. Importantly, development margins have remained at ~40%."

"I'm pleased with the quality of our underlying operating cash conversion at 96.6% for 1H17 and expect this to continue into 2H17. Distributable earnings are expected to be $43.2 million for the full year".

Gateway confirms the interim distribution of 3.5 cents per stapled security previously declared on 19 December 2016 and confirms the payment date of 28 February 2017.

Operational and Development Results

Operations continue to perform strongly. The operating margin in 1H17 reflects the development activity across five conversion communities being Aspley, Salamander Bay, Twin Cedars, Maroochydore and Yamba. Short-term revenue is also weighted to the second half due to seasonality.

- Total portfolio operating margin of 54.0% (1H16: 58.9%). Full year target range of 56%-60%. The mature communities continue to operate at a ~70% margin
- Portfolio now consists of 6,277 long-term occupied sites with an average site rent per week of $141.5 (1H16: 5,126 long-term sites/$136.8 per week)
- Added two communities, Terrigal Sands and Rockhampton, during the period for $20.9 million (excluding transaction costs) adding 241 long-term occupied sites to the portfolio
- Post balance date acquisition of Suncoast Ulladulla on 24 February 2017 for $3.9 million (excluding transaction costs)
- 92 homes settled (1H16: 104 settlements) and 72 committed sales (1H16: 60 committed sales) - as at 24 February 2017 committed sales and settlements totalled 203
- Profit per home settlement of $97k (1H16: $105k) reflects the mix of homes sold across the communities. The profit per home settled is expected to improve in 2H17

Outlook

Assuming no material change in market conditions, Gateway expects home settlements revenue to be weighted to the 2H17 and settlements to be in the range of 260 to 290 over the full year. FY17 Underlying NPAT, is expected to be approximately $44.8 million, in line with FY16. Distributable earnings are expected to be $43.2 million, an increase of 12% on FY16 and our distribution policy remains unchanged at 65% to 85% of distributable earnings.

Gateway's strategy remains focused on developing existing communities and acquiring new communities to grow the long-term rental revenue base. Gateway is well positioned with $110[1] million in debt capacity to fund acquisitions and development growth opportunities. We continue to actively manage the communities to drive profitability and take advantage of the growing demand for land lease communities.

The Group's outlook remains positive with strong levels of enquiries and underlying demand for the Gateway product as senior Australians continue to seek affordable and sustainable lifestyle solutions. The Group is well positioned to deliver strong 2H settlements with strengthening committed sales, appropriate levels of home stock on the ground and forward orders placed for further home stock.

Further details are provided in the Appendix 4D and results presentation.

Gateway Lifestyle will hold a conference call on Monday 27 February 2017 at 11am (AEDT) to discuss the 2017 Interim Results (Conference Call: 1800 123 296 (Toll Free); ID# 4947 8815; Webcast: http://webcast.openbriefing.com/3225). The conference call will be hosted by Trent Ottawa, CEO and Owen Kemp, CFO, and will include a Q&A session.

If you require further information please contact investor@gatewaylifestyle.com.au.

[1] As at 31 December 2016