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SUMMERSET ANNUAL MEETING – CHAIRMAN AND CEO ADDRESSES

Chairman's Address

Welcome and thank you for joining us at Summerset's 2018 Annual Meeting.

In November last year Summerset celebrated its 20th year of operation. With 23 villages and another seven for development in New Zealand, Summerset has grown quickly since its first village opened in Wanganui in 1997.

We have more than 4,700 residents, 500 more than a year ago and 1,200 staff, 200 more than a year ago, and we continue to be New Zealand's fastest growing retirement village and aged care provider.

Success to us means delivering results for our shareholders, our residents, our staff and playing a positive role in the community at large. I will touch on each of these areas in succession.

In 2017 we also celebrated our sixth year since listing on the NZX. Since listing we have more than doubled our size and are likely to double again in the next five years as we continue to grow and as the 70 plus population continues to increase.

In 2017 we delivered an underlying profit of \$81.7million, up 44% on the same period last year and a net profit after tax of \$223.4 million, a 54% increase on 2016.

We achieved 682 occupation right sales (new sales and resales), met our forecast build rate of 450 new retirement units, 10% more than the previous year and our development margin hit 27.3%, up from 22.2% in 2016.

Our strong profit growth has been driven by strong demand for our homes, the continued benefits of in-house construction of new villages and the well run operation of our existing villages.

Last year we saw good demand for our homes across the country despite the slowing Auckland general residential property market. This reflects the demographic we serve.

In 2017 we expanded our offering with land purchases in Kenepuru in Wellington, Avonhead in Christchurch, additional land alongside our Casebrook village and we opened the main building at our new Ellerslie village. When completed the Ellerslie village will house 400 residents, freeing up the equivalent of about 18 hectares of residential land in Auckland.

We also applied to Auckland Council for resource consent to develop 340 homes on 2.5 hectares on St Johns Road in Auckland and to Tasman District Council for resource consent for our proposed village in Richmond. Plans for our Boulcott, Lower Hutt village continue to progress with the submission of a resource consent application to Hutt City Council.

Design planning for Summerset's seventh Auckland village in Cheshire Street, Parnell is also moving ahead.

Construction of our Casebrook village in Christchurch and Rototuna village in Hamilton is progressing well. Last month residents moved into the first two and three bedroom villas and townhouses at Casebrook, while the first homes at Rototuna will be available in June this year.

We recently announced the purchase of a new development site at Te Awa in Napier, which brings our number of sites to 30 across New Zealand.

We also continue to invest in our older villages, with the recent completion of new recreation centres at Trentham and Levin.

At the end of 2017, Summerset's total land bank represented 2,841 retirement units and 396 care beds. This is a total of around six years' supply based on our intended build programme of retirement units in 2018 of around 450 units.

Looking at the funding of our operations, last year we issued a \$100 million retail bond. This was a first for the retirement and aged care sector and it has allowed us to diversify our funding sources and lengthen the tenor of our debt. Subject to favourable pricing and terms we plan to access this market again in the future.

From a customer perspective we continue to focus on lifting the bar in terms of what we provide around the country and doing our part to contribute to an industry doing the same. Last year we were awarded the best built environment award at the New Zealand Aged Care Association annual conference for our purpose-built memory care centre in Levin.

Our memory care concept sees people with dementia living in their own one bedroom apartment, within a secure memory care centre. This gives them their own home and a sense of independence in a safe and caring environment.

Summerset is the first in New Zealand to launch this style of apartment living for people with dementia and we will be implementing it in future villages, starting with our Casebrook and Rototuna villages which are under construction now.

Those of you who follow the Australian press will have seen much commentary over the last year around the retirement and aged care sectors with the Four Corners series on issues within Aveo being the most notable. The New Zealand market is considerably different with a much stronger regulatory regime and businesses with a greater customer focus. However, we cannot be complacent and we must be focussed on providing quality services to our residents and doing it in the right way. Many of the complaints in Australia are around complex and onerous contract terms and over businesses simply not "doing the right thing". I will touch on Australia later but in many ways this is our opportunity in Australia, to provide a better quality service.

I will turn to our staff now. Last year we were delighted by the previous Government's decision to increase caregiver wages and followed this up with our own market leading staff benefits which Julian will tell you about shortly.

At last year's Annual Meeting some of you asked what we were doing to increase wages for our cleaners.

On the first of April this year, we put in place wage increases for our housekeepers, laundry, café, and kitchen assistants, which has seen their hourly wage increase to \$17.25 an hour – 75 cents more than the Government's current minimum wage. We are committed to paying all staff above the minimum wage and are delighted to offer this increase in wages to our hardworking staff. We plan to keep these wages above the minimum wage over time.

We are also putting increased focus on the social and environmental sustainability of our business as we are aware that this is an important part of the way that we operate. Summerset already undertakes a range of activities that contribute to environmental sustainability. But we are in the early stages of our sustainability journey, and over the coming year will review our approach to sustainability to improve our contribution in this important area.

Last year I indicated we would commence investigating Australia as a potential market for expansion. Since that time we have been working through assessing this market and how we would position ourselves and operate within it. We have now established an office in Melbourne with a dedicated team headed up by Paul Morris, our former GM Development, who is now GM Development Australia. We continue to work through the appropriate due diligence required before entering a new market. We have no further announcements to make at this time, suffice to say we are taking this very seriously and have dedicated the appropriate resource and focus to the opportunity.

Summerset will continue to work hard to deliver high quality retirement living for its residents and subsequent financial results that benefit our investors, residents and staff.

Thank you for your continued support.

CEO's Address

Thank you Rob. Good afternoon everyone.

2017 was an exciting year for us as we celebrated the 20th anniversary of our first village in Wanganui.

Summerset's beginnings go back to the mid-1990s, when Summerset's founder John O'Sullivan visited his grandmother in an old fashioned geriatric ward in Waikanae.

She was in a room which housed a number of people who were only separated by plastic curtains between the beds.

John remembers stretching his arms out and being able to touch the walls and thinking there had to be an opportunity for proper aged care, where everyone had their own room and facilities.

His philosophy, which continues to this day, is that it has to be good enough for nana.

This was the start of Summerset. We have come a long way since then but we continue to focus on ensuring that we would be proud to have our own relatives, and indeed one day ourselves, in our villages.

From a business perspective we are tracking well. Underlying profit in 2017 of \$81.7m was up 44% on 2016. Our IFRS profit for 2017 was \$223.4m, up 54% on 2016. Since listing our underlying profit has grown at a compound annual growth rate of 47%. We continue to expect good growth in earnings as we continue to expand and improve on the business, albeit not quite at this rate of growth.

As shareholders you know we pay a modest dividend with the bulk of our earnings being reinvested into the business. In 2017 our dividend, after allowing for the dividend reinvestment programme was just over \$16m compared to IFRS profit of \$223.4m. This reinvestment has allowed us to continue to grow the business, to improve on what we do for residents, what we do for our staff and how we contribute to the wider community. We see these earnings results as positive for shareholders, as a fair return on the investments we have made and as essential for the continued growth in Summerset and improvement in what we do.

At the full year results we signalled that we saw our New Zealand build rate moving to around 600 retirement units over the coming two to three years. At this point we do not expect to increase our New Zealand build rate beyond this unless we saw particularly strong demand for our product. We see further growth likely to come from Australia, which market we are currently investigating.

Over the next period we expect to increase our land bank to support this build rate. We are a New Zealand wide operator and our land bank acquisitions are likely to reflect this. The diversity of our operations has been a strength for us in the past as we have seen different dynamics at play in different parts of the country over time, for example currently the Auckland residential market is flattening despite a still heated construction market. This is in contrast to much of the rest of the country.

We continue to build our construction and development teams and have brought in a number of high quality hires. We expect the pressure in the Auckland construction market to continue although the exit of Fletcher Building from its Building and Interiors unit has shifted the dynamics considerably.

You will have seen we undertook a rebrand last year across our business. This has been well received by residents. In particular the new quarterly magazine which we publish has been very popular.

Our resident satisfaction scores continue to be high with both village and care resident satisfaction reaching 97% last year. While these are good, our philosophy is that whilst 97% might be satisfied, we need to keep working on the remainder and even everyone in the 97% will have a suggestion or two on how we could do better.

For the third year in a row, we received a Highly Commended award in the Aged Care and Retirement Villages category of the annual Reader's Digest Trusted Brand awards. As Rob

mentioned, in September we also received the New Zealand Aged Care Association best built environment award for our first memory care centre at our Levin village.

This is the first apartment style living offer for people living with dementia in New Zealand. The genesis of this was simple: there must be a better way to care for people with dementia. We are building these facilities into our new villages and we aim to be a leader in the dementia space.

Last year we worked on the food offering in our villages and last month introduced three new regionally based caterers - White Tie Health Services, Kerr & Ladbrook and Cater Plus - to provide the food at our villages. We have also employed an in-house team to cater for the residents at our Levin and Paraparaumu villages who are working with Kapiti-based chef Ruth Pretty on recipes.

Food is a hugely important part of our care offering, and also for our cafes. Our focus was finding local, food providers who really care about what they do, where the owners are personally connected, and open to resident feedback.

In the clinical space we have a number of ongoing initiatives designed to continue to lift our standards. The roll-out of the V-Care system throughout our villages is largely complete and we are currently testing the clinical modules on one of our sites. Increased internal audit work as well as continued focus by the Clinical Governance Committee are seeing ongoing improvements in this area. 43% of our care centres which have been open for longer than three years have certification lengths of the maximum four years, with 50% having three year certification lengths.

In the design space we have a new range of village designs being built in Casebrook and Rototuna now. These are the culmination of a dedicated three years of work commencing with customer focus groups and research, revision of our designs to improve what is provided for residents, and then consenting and construction of these designs. There are a number of improvements which feature in these designs and we have had very good customer feedback from them.

One of the most exciting initiatives we introduced last year was a raft of benefits to reward our staff, enhance our employee brand and improve staff retention. We now believe we have the most compelling staff offering in the market.

These benefits include:

- Health insurance covering everyday health care costs such as GPs, dentist, physio and optometrists
- Funeral cover - \$10,000 for every permanent employee or their spouse should they need it
- A week of long service leave – after five years' service with Summerset
- Buyers group trade discounts and Summerset supplier discounts from a range of companies

These benefits apply to all Summerset permanent full or part time staff, at all levels, from the immediate commencement of their employment with us. This is on top of the government funded pay increase for caregivers, diversional and occupational therapists.

We have also increased wages for our housekeepers, kitchen café and laundry assistants to ensure they are higher than the new minimum wage.

In 2017, we once again offered staff the opportunity to participate in our all-staff share scheme, with 83% of employees signing up.

In consultation with our frontline staff, we've also been developing a new uniform range, which will be rolled out across all villages later this year.

Staff engagement is an important measure within any business and we were delighted to receive an overall company engagement score of 67% last year. This is 9% above the average engagement score of 58% for New Zealand companies and places Summerset in the highest quartile for staff engagement among New Zealand companies. Whilst this is pleasing and demonstrates that the work we have undertaken in this area over the last few years is delivering results, we plan to continue to progress this area over time given its importance.

Health and Safety continues to be a huge area of focus for us. We have moved further towards improving our systems, including the implementation of a risk management framework across the company, taking part in two external Health and Safety audits, which identified where we are making good progress and how we can further enhance our practices.

We have also achieved ACC accredited employer status, employed a Health and Safety consultant dedicated to construction, employed dedicated on-site health and safety personnel for our vertical construction sites, and have achieved positive results with our Site Safe New Zealand audits across our construction sites.

This year we have signed a partnership agreement with New Zealand Bowls. We also provide support to Alzheimers New Zealand, Age Concern and the Dementia Cooperative. We are looking to grow this portfolio over time to support and encourage those who seek to raise the quality of older people's lives. Rob has touched on sustainability and whilst we are not an extractive or resource hungry industry we have a part to play in this and will be working on our approach through this year.

Finally I will touch briefly on Australia. Rob has given an outline of what we are doing in this space. I will simply add that whilst the opportunity is exciting it is important that we plan carefully to ensure we succeed and we are committed to doing just this.

I'd like to thank our investors who continue to support Summerset, our residents who have chosen a Summerset village as their home, and our staff, who are bringing the best of life to our residents every day.

ENDS

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ABOUT SUMMERSET

- Summerset is one of the leading operators and developers of retirement villages in New Zealand, with 23 villages completed or in development across the country. In addition, Summerset has seven sites for development in Avonhead (Christchurch), Richmond (Nelson), Kenepuru (Wellington), Lower Hutt (Wellington), Te Awa (Napier), St Johns (Auckland) and Parnell (Auckland), bringing the total number of sites to 30.
- It provides a range of living options and care services to more than 4,700 residents.
- Four-time winner of Retirement Village of the Year and Silver Award winner in the Reader's Digest Quality Service Awards 2017.
- The Summerset Group has villages in Aotea, Casebrook, Dunedin, Ellerslie, Hamilton, Hastings, Havelock North, Hobsonville, Karaka, Katikati, Levin, Manukau, Napier, Nelson, New Plymouth, Palmerston North, Paraparaumu, Rototuna, Taupo, Trentham, Wanganui, Warkworth and Wigram.