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Aveo delivers on strategic goals for its Retirement business and records strong performance in FY18

Australia's leading owner, operator and manager of retirement communities, Aveo Group (ASX: AOG), today released its financial results for the year ended 30 June 2018 (FY18).

FY14 – FY18 in Review

In 2013, Aveo announced its vision to become Australia's leading and most innovative senior living provider. It targeted FY18 as the year to complete its transition from a diversified property group to a pure retirement group and to achieve defined strategic plan objectives.

Aveo has achieved or exceeded all financial and non-financial strategic plan objectives in its transition to a pure retirement group:

- Return on assets targets in FY16 and FY18;
- Delivery of 500 plus new product by FY18;
- Sell-down of Non-Retirement assets at or above book value; and
- Consistently high resident satisfaction with a resident satisfaction rating of 84% in 2018.

Aveo Group Chief Executive Officer Geoff Grady said: "Aveo has transformed over the past five years to not only evolve as a leading, innovative retirement group but also as a substantive healthcare organisation."

"The wellbeing of our residents remains our highest priority. The high levels of satisfaction that they express for the retirement communities that we are creating for them – especially with innovative healthcare services enabling them to age in their own homes – means we are well positioned to evolve to the next stage of our development.

"While we have achieved our objectives, and despite achieving record profit levels, Aveo's share price is currently trading well under net tangible assets (NTA) due to concerns around sustainable sales levels and perceived further industry regulatory risk.

"Aveo today announces a strategic review of its retirement business to examine a number of key options including with potential capital partners", said Mr Grady.

Strategic review

Aveo's Board considers that the market is significantly undervaluing Aveo's market leading retirement business:

- Aveo currently trades at a 44% discount to NTA; and
- Aveo trades on a FY19 earnings yield of more than 9%.

The Board also takes the view that the factors likely affecting the current discount to NTA (risks around sustainable sales levels including the current state of the residential market, further regulatory risk and the class action) are outweighed by the strong medium to long-term growth prospects for the sector and the position that Aveo occupies in it.

Aveo's vision is to be Australia's leading and most innovative seniors living provider. Our mission is to honour and serve our residents through Kindness, Care and Respect. Kindness, Care and Respect are our corporate values.

Aveo is a leading and trusted owner, operator and manager of retirement communities across Australia. Aveo's philosophy is underpinned by a commitment to grow with older Australians by inspiring greater living choices. We currently and proudly do so for 13,000 residents in 93 retirement communities across Australia.

Issued by Aveo Group (ASX:AOG) comprising Aveo Group Limited ABN 28 010 729 950 and Aveo Funds Management Limited ABN 17 089 800 082, AFSL No. 222273 as Responsible Entity for the Aveo Group Trust ARSN 099 648 754.

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The strategic review will focus on closing the value gap between the price of Aveo's listed securities and the underlying value of Aveo's retirement properties. It will include the possibility of the introduction of capital partners (Australian or overseas) into the retirement business.

The Board is currently finalising mandate arrangements for the advisory role and it is expected an announcement will be made by next Friday, 24 August 2018.

Financial results

Aveo Group recorded a FY18 underlying profit after tax and non-controlling interest of \$127.2 million, up 17% on FY17.

On a statutory basis, Aveo recorded a FY18 statutory profit after tax of \$365.1 million, up 44% on FY17. This result was driven by a 40% profit increase from the Group's retirement business and is underpinned by the continuing revaluation uplifts in the retirement portfolio and the sale of the Gasworks complex at Newstead, Brisbane at a substantial premium to its book value. Aveo's net tangible assets per stapled security was up 16% to \$3.92.

Key financial highlights for FY18 include:

- statutory profit after tax of \$365.1 million, up 44%;
- underlying profit after tax and non-controlling interest up 17% to \$127.2 million;
- earnings per stapled security (EPS) on underlying profit after tax and non-controlling interest up 16% to 22.0 cents;
- funds from operations (FFO) in line with settlements at \$115.4 million (\$163.9 million in FY17); and
- net tangible assets per stapled security of \$3.92, up 16% from 30 June 2017.

Aveo Group Chief Executive Officer Geoff Grady said: "In the second half of the year, the settlements recorded by the Established Business and from our development activities were higher than those recorded in the first half of FY18, whilst there was a 50% increase in development sales as development deliveries increased.

The increase in Aveo's underlying profit after tax was driven mainly by the delivery of 506 new units and Newstead achieving higher than expected development margins.

In FY18, we developed and launched our first vertical retirement community at Newstead, Brisbane, which provides residents with our entire service offering, in one location. Aveo Newstead represents the future of retirement living in Australia – the best in market integrated retirement offering combining all Aveo's innovation over the five year strategic plan period and includes multiple care offerings", he said.

Aveo met its goal of a 6.0% - 6.5% return on retirement assets in FY16 and achieved an 8.01% return on retirement assets in FY18, above the top end of the target range.

Aveo's total retirement assets continued to grow in FY18 through both revaluation increases and the increased amount of capital invested into retirement development projects. Retirement assets now comprise 97% of Aveo's asset base.

Retirement

Total Retirement revenue increased by 56% in FY18 to \$600.7 million, driven by higher contributions from both the Development and Care and Support Services segments. Aveo recorded total retirement sales volumes of 974 units, down 22% from FY17. Development sales increased over the prior comparative period as Freedom minor development units, major development stock delivered in FY17 and new units predominantly delivered at Newcastle and Newstead during the period all continued to sell down.

In the Retirement Established Business, the realised average transaction price point continued to grow, up 12% to \$442,000, which resulted in higher average DMG/CG¹ amounts per transaction. The Aveo suite of contracts continues to be adopted throughout the portfolio, which will contribute to margin growth as those residents sell their units. An additional 593 units are now on Aveo Way contracts compared to FY17.

¹ Deferred management fees and capital gains

The Established Business profit contribution was impacted by lower resales volumes but these continue to show signs of improvement.

The growth in the Development contribution was due to the delivery of 506 new major development units predominantly across the Newcastle, Newstead and Bella Vista retirement communities as well as an increased sales rate of minor development Freedom original and conversion units. Both major and minor development margins exceeded their target ranges.

Revenue growth for Care and Support Services was offset by upfront costs of the new Durack and Newstead aged care facilities.

Non-Retirement

Non-Retirement assets continue to sell down in line with the Group's strategy. The change in profit contribution primarily related to lower land lot sales.

The sale of Gasworks leaves the residential land estates as the Group's last material Non-Retirement assets.

Capital management

The settlement of Gasworks 3 is on track for September 2018.

Aveo Group's syndicated facility limits were increased by \$77.5m to \$630m and the facility maturity was extended to July 2021. The Aveo Healthcare facility maturity was extended to March 2020.

Aveo's proforma capacity through undrawn committed lines and cash at bank is \$165.7m.

Reported gearing at 16.8% remains in the middle of the Group's target range.

Outlook

Aveo's sales performance has improved throughout the year and is now performing in line with the fourth quarters of FY17 and FY18. Despite a slowdown in the residential property market, Aveo's weekly sales rates post the FY18 recovery remain steady. While the state of the residential market is a factor in total sales, other drivers such as the quality of the offer are more important. A further update on FY19 trading will be provided at the Group's annual general meeting in November 2018.

The Group remains focused on furthering its position as the leading and most innovative seniors living provider to deliver further growth and value:

- The sales rate is expected to return to normalised levels i.e. over 10%;
- Aveo is on track to deliver 418 major development units in FY19;
- It is focused on selling new units and reinvesting capital into development and growth; and
- It is also focused on continuous improvement and innovation to provide better living options for senior Australians.

Based on current market conditions, Aveo confirms FY19 EPS guidance of 20.4 cps. Aveo is targeting a full year distribution based on a payout range of 40% - 60% of underlying profit.

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