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14 November 2018

Aveo Group 2018 Annual General Meeting

Chairman's Address

Ladies and gentlemen;

I am pleased to share with you today the results achieved by Aveo Group in FY18.

It was a year not without challenge but the leading position that we have built in Australia as a pure retirement group ensured we were well equipped to manage these challenges.

This morning, I will detail some of the highlights from the year and also update you on the strategic review that we commenced only a few months ago. This strategic review involves examining various initiatives that will close the value gap between the price of Aveo's listed securities and the underlying value of our retirement properties. We are also evaluating the potential to introduce capital partners to further augment our retirement business.

Solid Financial performance

In FY18, Aveo Group achieved strong financial results.

For the 12 months to 30 June 2018, we recorded an underlying profit after tax and non-controlling interest of $127.2 million, up 17% on the $108.4 million recorded in FY17. At a statutory level, our FY18 statutory profit after tax was up 44% to $365.1 million.

Our solid financial performance in FY18 was driven by a 40% profit increase from the Group's retirement business and was underpinned by 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.

Our underlying earnings per stapled security (EPS) were up 16% to 22.0 cents whilst funds from operations (FFO) settled at $115.4 million in FY18. Our net tangible assets per stapled security was recorded at $3.92, up 16% from that recorded 12 months prior.

Building the future of retirement living

A key plank of Aveo's strategy is to continue to evolve the retirement living communities that we create for our residents – both in terms of the properties themselves and the increasingly diverse and innovative range of services that our residents can access – to create the retirement living communities of the future.

During the year, we launched our first vertical retirement community at Newstead, Brisbane. Aveo Newstead is a truly ground-breaking retirement community which provides residents our entire service offering – from independent living through to aged care - in one location.

Aveo Newstead represents the future of retirement living in Australia and we believe, demonstrates our commitment to innovation and the wellbeing of our residents.

Strategic review

FY18 was a milestone year for Aveo Group as it marked the five-year anniversary of the commencement of our strategy to transform from a diversified property group to a pure retirement group.

We set a number of goals as part of our vision to become Australia's leading and most innovative senior living provider.

We achieved or exceeded all those goals and achieved strong positive earnings growth over the period FY14-FY18 and we have a demonstrated track record of innovation and understanding and addressing consumer expectations.

Despite this, our security price is trading at a significant discount to NTA. We believe this is due to concerns around sustainable sales levels in a broader property market that has softened, and perceived further regulatory risk in the retirement sector. We believe these concerns are outweighed by the strong medium-to-long term growth prospects for the retirement sector in Australia and the significant position that Aveo occupies in it.

As such, we have commenced a strategic review of our retirement business and have appointed Merrill Lynch Markets (Australia) Pty Ltd as our financial adviser. This review is examining the options and various initiatives that may be available to close the value gap between the price of Aveo's listed securities and the underlying value of our retirement properties. The review includes an evaluation of the potential introduction of capital partners into the retirement business.

It is our view that Aveo's current security price which is trading at a discount of 52% to net asset value does not reflect the underlying value of our market-leading retirement business which has grown strongly and consistently over the past five years.

We have already made good progress on this review with our advisers and look forward to keeping you updated on this important project over the next year.

Sustainability

Over the past year, Aveo undertook a review and refresh of the organisation's values. Central to this review was strengthening our ethical and sustainable operations by building greener communities.

Aveo's approach to sustainability is founded on six pillars;

- our communities
- our residents
- our people
- our impact on the environment
- our economic responsibilities; and
- our approach to governance.

We established a Sustainability Committee to help us to meet our sustainability objectives and formulate the strategy, policy and actions necessary. The Committee will also provide the Board and executive management with measureable metrics, with the aim of producing our first sustainability report in FY19.

As reported in the FY18 Annual Report, there are various initiatives already underway and include a focus on diversity and inclusion in our workforce, environmentally sound power usage and raising awareness on diseases that impact our resident's quality of life such as breast cancer and dementia.

Furthermore, our work in building greener communities, was more recently recognised where Aveo was awarded the 2018 Australia Timber Award for Sustainability for Warratah Aveo Bella Vista, which opened in October.

Confidence about the future

Ladies and gentlemen, 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.

We today occupy a strong position in Australia and we are a well-established and capitalised company.

Our retirement communities continue to evolve by providing residents with increasing levels of care. 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.

The Group's ongoing contribution and achievements in Retirement Living have also been recognised by our peers through the National Retirement Living Awards to be announced in Canberra on 29 November 2018.

We are proud of the achievements of our staff in their nominations for Village Manager of the Year (NSW/ACT) and Future Retirement Living Leader, as well as the Group's continued work in designing innovative solutions for retirees through "Nutrition Select Ready Meals by Aveo" and through the design of Aveo Newstead which represents a new standard in retirement living.

Your Board remains committed and confident about our future. We have a strong, dedicated and energised management team who remain focused on meeting and exceeding the changing needs of our residents and their families.

I would like to thank my Board colleagues for their hard work during the year and extend our appreciation and thanks to all Aveo employees for the devotion and commitment to ensuring the wellbeing of all our residents around Australia.

And I would especially like to thank you, our securityholders, for your ongoing support of Aveo Group.

I will now ask Chief Executive Officer Geoff Grady to take you through in more detail our achievements and performance in FY18, including an update on FY19 trading.

Seng Huang Lee
Chairman

Chief Executive Officer's Address

Thank you Chairman.

Good morning ladies and gentlemen.

This morning, I'll be commenting briefly on our achievements under our five year strategic plan which the Chairman has already touched on, I'll give an update on sales in the current financial year and the consumer reaction to our new contract offerings, talk to our FY18 results and outline some further detail around the strategic review process currently underway.

In 2013, Aveo announced its vision to become Australia's leading and most innovative senior living provider.

We targeted FY18 as the year to complete the transition from diversified property to retirement and to achieve defined strategic plan targets.

Aveo achieved or exceeded all financial and non-financial strategic plan objectives in its transition to retirement. In particular we achieved:

- Our Return on Assets targets in both FY16 and FY18
- We delivered 500 plus new product by FY18
- We sold-down our Non-Retirement assets at or above book value
- We've had consistently high resident satisfaction ratings with our latest resident satisfaction survey just completed returning a rating of 83% - the highest in four years

We have all but completed our transition to being a retirement only business. Our retirement assets at 30 June past comprised 97% of Aveo's asset base and will comprise 99% by the end of FY19. All non-retirement assets are currently in the process of being offered to the market as I'll talk to later.

As the Chairman mentioned, Aveo has also transformed over the past five years to become a substantive healthcare organisation and underlying the importance of this is that we'll deliver almost 750,000 hours of care this year.

Adopting care as a central component of our offering wherever possible and producing cutting edge retirement product sees us continuing to be Australia's most innovative retirement operator.

Retirement Sales Update

The key to our FY19 profit result will be the number of resales, buyback sales and minor developments that we sell and settle this year.

In August we indicated that "provided the market does not deteriorate significantly, we expect to write a minimum of" 1,500 sales – 1,000 resales, buyback sales and minor developments and 500 new stock sales.

Since mid-August the residential market has softened considerably.

The clearest marker of this for Aveo is the weighted average auction clearance rates in the markets that we operate in – Brisbane, Sydney, Melbourne and Adelaide which for the first six weeks of Q2 had clearances of an average of 44% - finishing, as the graph shows at 43% last week but hitting lows of 36% in Week 13 and 39% in Week 18.

That's against an outcome of 54% in Week 6 when we reported in August, and an average of 49% for Q1 and 54% in Q4FY17.

The sales outcome for the year will be determined by the tension between the negative trends in the residential market combined with a continuing weak outlook by most commentators vs the strong and growing interest in our product.

Backed by the inexorable growth in demand in the retirement sector, our innovative product and more targeted digital marketing, bookings to inspect our units and seen appointments continue to grow and are now running at the highest level seen for some time – Week 18 for example ran at 203 bookings made.

To achieve 30 sales per week we generally require between 180-200 bookings per week and we've achieved that in four of the 19 weeks of this financial year; three of those four weeks were consecutive weeks in the past month.

Negativity around residential markets will however both constrain the number of sales able to be written and the time to affect settlement timeframes. This has been particularly noticeable in Sydney.

Extrapolating the current sales run rate, which is averaging 22 written sales per week, for the remaining part of the financial year, implies an annualised rate of circa 1,150 sales which is up from the 974 reported in FY18, however it is obviously lower than the initial 1,500 target we discussed with the market in August.

Net Deposits Quarterly

In the graph on screen we've put our sales written in a quarterly format for FY17, FY18 and FY19 to date.

Our first quarter sales written have recovered strongly from the same period last year (up 81%) and was at 77% of the same quarter in FY17. Our second quarter is currently running at 22 per week, again an uplift on the same quarter last year which was at 18 per week.

Demand for stock in the existing business (including minor development) has been continuing to grow since Q1 FY18 and is currently running at an annualised rate of circa 875 units per annum, up substantially on the 655 written in FY18.

Demand for new stock sales is now expected to be circa 275 units in FY19 up on the FY18 sales of 225. FY20 production will be scaled back accordingly to approximately 200 units as we sell down the accumulated new stock.

Update on New Customer Offerings

At Aveo our belief, coming out of a firm foundation in consumer research, is that customers want contracts offering as much clarity, certainty and choice as possible.

That was the whole concept behind the original Aveo Way contract – giving certainty around the amount and timing of the amount residents had spent to buy into our communities.

An upgraded suite of contract options was rolled out from 1 September 2018, building on the certainties offered under the original Aveo Way contract – especially certainty around the ability to transfer in a seamless way into our care based product.

As expected the introduction of our new customer offerings have been received well in the market with a total of 68% of new buyers since that time choosing the standard Aveo Way contracts, 27% of incoming residents choosing Aveo Certainty with its care based transfer options and only 5% choosing the basic and generic Aveo Essentials contract.

Established Business Results

In terms of the Established Business profit for FY18, DMF/CG and profit contribution were down broadly in line with the reduced sales volumes we saw – a direct function of adverse media largely in the first quarter.

Sales in the Established Business were down by 38% and the portfolio sales rate fell from 10.9% in FY17 to 7.5% in FY18. We expect the long term portfolio sales rate to return to 10%-12% by FY20.

Major Development Sales and Margins

In FY18, we successfully delivered 506 new major units, with 456 deliveries in the second half. The deliveries were across eight sites, with the largest volumes at Newstead in May and Bella Vista and Tanah Merah in late June. These deliveries brought total deliveries in the FY14-FY18 period to 1,024.

Major development margins (pre-interest) at 29% exceeded the target range of 16%-20%, mostly because of the higher margins on the Newstead product.

The Major development average transaction price of $608k was driven by premium priced product at Newstead with an average ILU price of approximately $800k and Bella Vista with an average price of approximately $950k.

We had 570 major development units on the balance sheet, carried at $346.8m, as at 30 June largely reflecting the delivery profile for the bulk of FY18 product late in Q4.

In FY19 we're now targeting to sell approximately 275 stock in this category while delivering 418 new units. As a result we will be reducing FY20 new stock delivery to circa 200 units while the surplus stock is absorbed.

FY18 Development Projects

Clockwise from the left:

- Newstead – 199 units and 99 care rooms delivered in May
- Bella Vista – 64 ILUs delivered in June
- Robertson Park – 34 ILUs delivered in April
- Newcastle – 50 ILUs delivered last July

Major Development Delivery Forecast – Units

Our development pipeline remains the strongest of any retirement operator in Australia – almost 6,000 units across 19 sites.

The only adjustments to the sites on the list since our previous announcement in February, is the deletion of Newstead which is now fully delivered and the addition of our new Broadwater site on the northern end of the Gold Coast.

FY19 Development Projects

Clockwise from the left:

- Newcastle – 45 ILUs – civil works are complete and framing and roofing on the homes is now well underway
- Robertson Park -32 ILUs – works well underway to upper levels as shown in the photo
- Carindale – 97 ILUs – slab pours for basement and ground floors are complete and formwork on upper levels is well underway
- Island Point – 16 units – reached practical completion

Non-Retirement Results

Our non-retirement assets continue to sell down in line with our strategy.

The sale of Gasworks in FY18 left the residential land estates as the last material non-retirement asset class.

Presales at the remaining land estates as at 30 June were 47% of the remaining 390 lots – a total of 206 lots remaining to be sold. As at 8 November that had reduced to 173.

The smallest of our land banks at Shearwater is now sold out and we expect to be fully sold out of Rochedale and Saltwater Coast at Point Cook later this year. Peregian/Ridges will not be sold out until FY20.

The change in profit contribution in FY18 primarily related to lower numbers of land lot sales settled in the year - down from 729 in FY17 to 466 in FY18.

Update on Strategic Review

As part of the strategic review, the Directors are continuing a number of initiatives to dispose of the last non-retirement and non-core assets including divesting the 275 unit US retirement portfolio, as well as offering the Currumbin land site and the Albion residential apartment development site for sale.

As part of the strategic review we are also considering the remix of the portfolio – looking at opportunities to expand the Aveo Newstead style of integrated retirement communities in Sydney and Melbourne as well as disposing of smaller or more regional communities in a way that would optimise value for all securityholders.

As we flagged in August, the strategic review also includes the possibility of the introduction of capital partners (Australian or overseas) into the retirement business.

Since our August announcement and with the release of the initial marketing document last month, Aveo Group and Merrill Lynch have had reverse enquiry from a significant number of parties interested in transactions with Aveo Group either as a whole or for a partnership at the asset level.

Following the distribution of the initial marketing document in late October, management undertook a roadshow for interested parties through Asia and Australia which has further generated strong interest.

We intend to undertake a two-stage process.

The Information Memorandum and the First Stage data room will be open to parties in late November.

Non-binding indicative bids are to be submitted by late January 2019.

A select number of preferred parties will then be invited to participate into Stage Two process – on current planning from early February.

The Directors have established a committee and process to assess various structuring alternatives. This will ensure that any offers received are subject to consideration by the Directors within an appropriate period of time.

Securityholders will be advised as soon as is appropriate with all relevant information.

The Directors will ensure the potential outcomes are in the interest of all securityholders and whilst there is no certainty of a transaction, will keep the market informed of all material developments.

Unless there is a requirement to announce earlier we will provide an update on the process at our half year results announcement in February.

Outlook

Despite all the difficulties of the past 18 months, our mood is cautiously optimistic.

Aveo has successfully delivered on its FY18 retirement strategy targets and that strategy remains relevant.

Aveo remains focused on furthering its position as the leader in the retirement living market to deliver further growth and value.

- Sales rate expected to return to normalised levels in the medium term based on strong and growing enquiry
- On track to deliver 418 major development units in FY19
- Focus is on sale of new units and re-invest capital into development and growth but in line with underlying demand. Subject to any significant change in economic conditions, as I mentioned earlier we expect to deliver circa 200 new stock in FY20 as surplus stock is absorbed
- Continue improvement and innovation to provide better living options for older Australians

Due to current market conditions and uncertainty around future sales levels, management will not be confirming FY19 EPS guidance today.

In addition, we note there will be a significant skew of profits to the second half due to the timing of new retirement development unit deliveries and settlement of non-retirement lots.

We are targeting full year distribution amount based on a payout range of 40%-60% of underlying profit.

I'll now hand back to the Chairman.

Geoff Grady
Chief Executive Officer