



Centuria Capital Group

Strategic investment in the healthcare sector

Formation of Centuria Heathley

ASX:CNI | 20 May 2019

Formation of Centuria Heathley

- Centuria is pleased to announce a strategic investment in the healthcare sector via entry into an agreement to acquire an interest in Heathley Limited (**Heathley**) on completion of the Transaction
 - Centuria will acquire a 50% voting interest and 63.06% economic interest in Heathley for a total consideration of \$24.4 million
 - A put and call arrangement will also exist for Centuria to acquire the remaining shares in Heathley at and from the end of year five
- The transaction represents an opportunity to add a new asset class with strong fundamentals and a specialised management team to the Centuria platform
- The total consideration of \$24.4 million represents a 10x EBIT multiple¹ and will be fully funded from Centuria's cash reserves

1. Based on normalised FY18 EBIT of \$3.19m adjusted for NTA of \$6.9 million



Summary of the key terms



Proposal

- Centuria acquires a 50% voting interest and a 63.06% economic interest¹ in Heathley Limited
- The specialist healthcare funds management vehicle will be known as "Centuria Heathley Limited"
- Transaction is "friendly" and anticipated to proceed efficiently



Consideration

- \$24.4 million for the 63.06% economic interest
- Implied 10x normalised FY18 EBIT multiple adjusted for NTA²



Future option

- Centuria will have a first right of refusal to acquire further Heathley shares during the first 5 years of the shareholder agreement
- At the end of year 5, Centuria has a call option and Heathley management have a put option over the remaining shares in Heathley that Centuria does not own
- Heathley management have an option to buy Centuria's stake (or put option over Heathley's stake) in the event of a change of control in Centuria³



Board representation

- Board of directors of Centuria Heathley Limited to comprise of 6 directors, 3 each from Centuria and Heathley management from completion
- Mr. John Stuckey will remain as Chairman for first two years post completion and Mr. Andrew Hemming will remain as a director; Mr. Garry Charny, Mr. John McBain and Mr. Jason Huljich to be proposed as Centuria appointees



Funding requirement

- Centuria⁴ will seek to raise approximately \$62 million by using its unlisted distribution network to support funding requirements for two Heathley funds, HDMF2 and HACPF1
- Centuria⁴ will manage and underwrite any shortfall in the fund raising to satisfy the funding requirement



Executive participation

- Andrew Hemming to enter a 3-year employment contract with Centuria Heathley and his Heathley shares to be escrowed for 3 years
- Heathley staff to share office accommodation with Centuria in near term



Financial close

- The Transaction is expected to close on or before 11 October 2019 and is subject to Heathley shareholders convening a meeting and approving the Transaction
- The Transaction may close earlier pending the shareholder approval above and the completion of the purchase by a third party investor of an interest in the Heathley Joint Venture Property Fund⁵

1. 13.06% of the shares acquired have been converted to two classes of shares, one holding voting rights, the other distribution rights

2. Based on normalised FY18 EBIT of \$3.19m adjusted for NTA of \$6.9 million

3. A change of control of Centuria will be taken to occur if a person (together with its associates) acquires 50% or more of the issued shares in Centuria, or alternatively acquires 30% or more of the issued shares in Centuria and, within 12 months of the date acquiring that 30% interest, more than 50% or the directors of Centuria as at the start of that 12 month period have ceased to be directors of Centuria by the end of that period. The call option is exercisable at 9x multiple of EBIT adjusted for NTA and the put option is exercisable at 10x multiple of EBIT adjusted for NTA

4. Via appropriately licensed entities in the Centuria group

5. The transaction is not conditional on third party investor's investment occurring

Heathley is a specialist healthcare real estate fund manager

Strong leadership team with solid track record

- Completed 47 healthcare property transactions since 2013 with a total acquisition value of \$601 million
- Highly experienced team from a broad range of backgrounds including investment banking, property funds management and healthcare infrastructure

Unique healthcare focus

- Specialist expertise across healthcare chain
 - Healthcare AUM of \$620 million¹
- Strategic relationships with sector participants such as Healius, Montserrat Day Hospitals, Hall & Prior, GenesisCare and Nexus Hospitals

Disciplined investment approach

- Disciplined approach to investment opportunities with a focus on healthcare tenants with sustainable business models that are reducing costs for the healthcare system
- Partnered investment approach with operators through providing aligned capital



42 properties



\$620m
of AUM¹



8
unlisted funds



40+
year
history

Source: Heathley. Slide issued by CFML AFSL No: 479873

Note:

1. Based on independent valuations as at 1 September 2018. Assumes REIT Independent Valuations are on an 'as if complete' basis and assumes completion of the REIT's Post Completion Developments

Opportunity in a new asset class with specialist management

Specialist healthcare real estate funds manager

- Heathley is a specialist healthcare property funds manager with an experienced team and \$620 million in AUM¹
- Heathley has strong track record and established strategic relationships with healthcare operators
- Centuria and Heathley each have unique and complimentary skills, e.g. sector relationships, distribution capability, balance sheet capacity
- Centuria Heathley has been formed to give Centuria access to healthcare sector and to accelerate Heathley “stand alone” growth potential

Exposure to the strongly performing healthcare sector

- Strong growth in healthcare expenditure supported by favorable macroeconomic trends
- Between 2004 -2018 Healthcare property has delivered strong risk-adjusted returns relative to other asset classes
- Total healthcare expenditure in Australia grew by 4.7% between 2006-2016 driven by favourable macroeconomic drivers
- Centuria sees advantage in healthcare real estate outcomes not being directly correlated to commercial and industrial markets

Strong growth opportunities in the sector

- Australian healthcare real estate sector is highly fragmented – limited number of securitisation and institutional real estate managers servicing this asset class
- Strong growth opportunities through ongoing healthcare sector consolidation and partnership with healthcare operators
- Opportunity to deploy Centuria's retail network in the underlying Heathley funds at an attractive distribution yield
- Heathley has one existing institutional relationship and is negotiating to secure a second at present

Formation of Centuria Heathley

- Centuria and Heathley are both mature funds management platforms
- Provides additional opportunities to accelerate AUM growth and recurring revenues
- Capacity to expand to \$1.0 billion in near term with known potential projects
- Centuria and Heathley executive teams share similar culture and intend to work closely together

Source: Heathley. Slide issued by CFML AFSL No: 479873

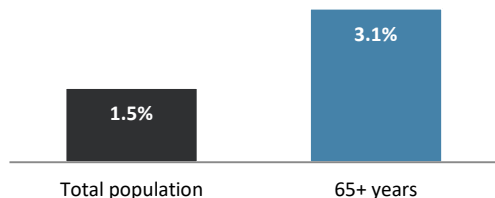
1. Based on independent valuations as at 1 September 2018. Assumes REIT Independent Valuations are on an 'as if complete' basis and assumes completion of the REIT's Post Completion Developments

Strong healthcare sector fundamentals

Total healthcare expenditure in Australia grew by 4.7% between 2006-2016 driven by favourable macroeconomic drivers

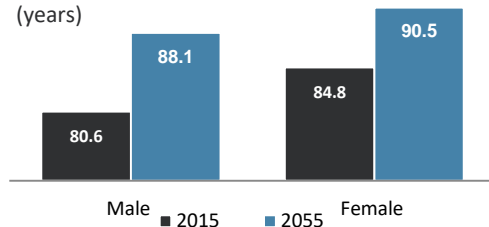
1 AGEING POPULATION

Australian population growth (2018 – 28 CAGR)



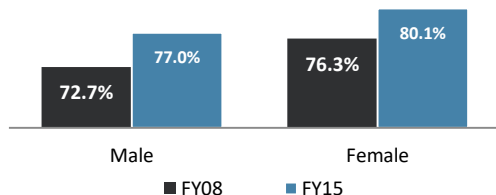
2 LONGER LIFE EXPECTANCY

Projected life expectancy at birth (years)



3 HIGHER CHRONIC DISEASE OCCURRENCE

Proportion of population with one or more long-term health conditions



4 INCREASED FOCUS ON PREVENTATIVE CARE

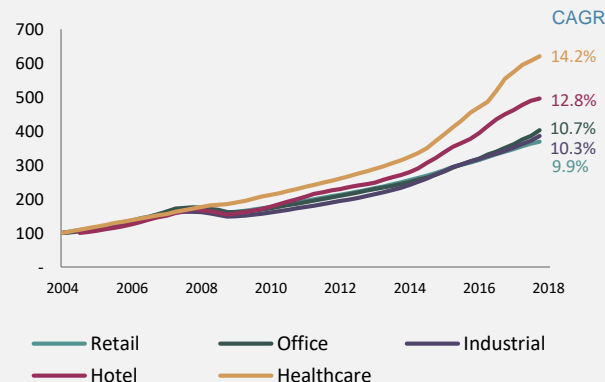
Federal Government policies aimed at placing greater emphasis on primary and secondary healthcare facilities to reduce the burden of funding on the public system

Expected to increase demand for such primary and secondary healthcare services

Sources: ACFA – Fifth Report on the Funding and Financing of the Aged Care Sector – August 2018, Independent Hospital Pricing Authority – National Hospital Cost Data Collection Cost Report 2015-6, ABS 3222.0 – Population Projections, Department of Treasury, Treasury projections from 2015 Intergenerational Report: Australia in 2055, ABS 4125.0 – Gender Indicators, Australia, September 2017.

Healthcare property has delivered strong returns and experienced relatively low volatility compared to traditional real estate sector

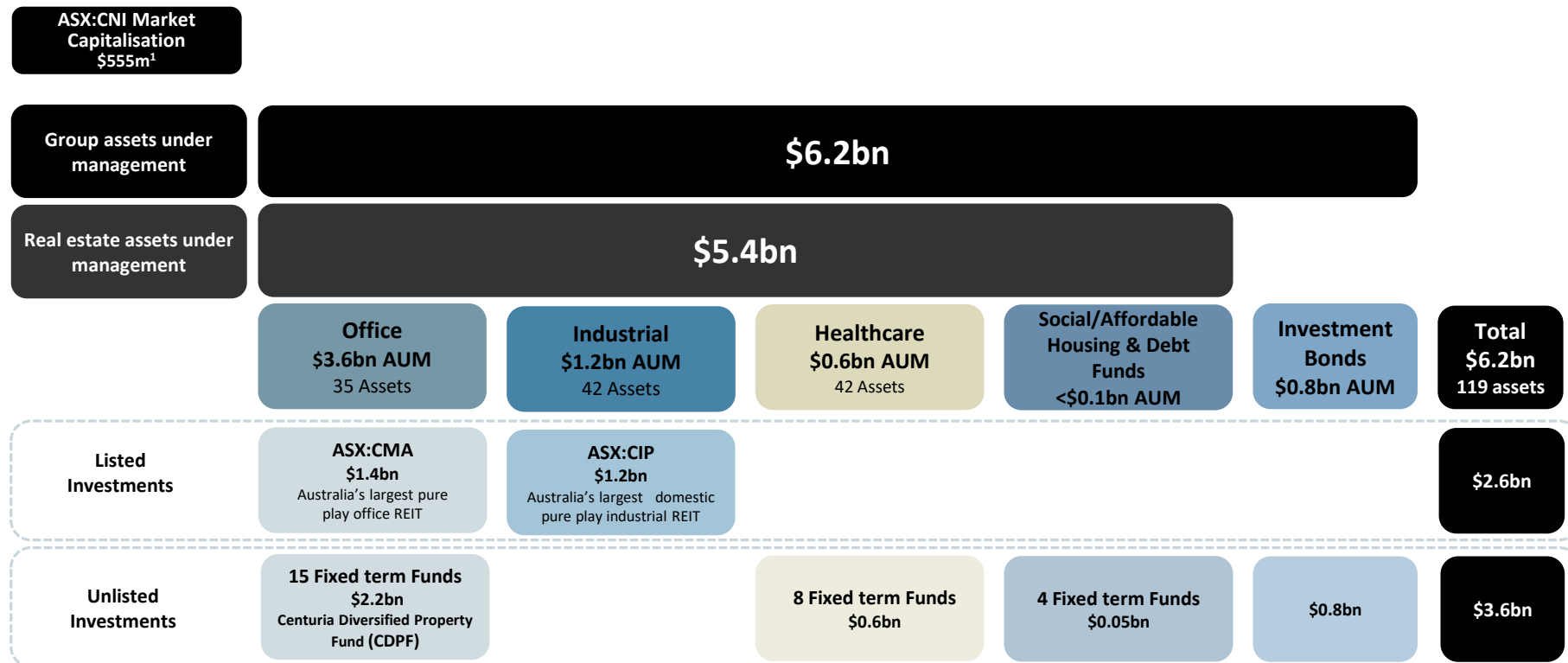
AUSTRALIAN DIRECT PROPERTY TOTAL RETURNS SINCE 2004



HEALTHCARE PROPERTY CHARACTERISTICS

- **Revenue stability** as revenue streams are backed by government funding, allowing tenants to commit to longer term leases
- Relatively **low volatility** compared to traditional real estate sectors, due to non-discretionary nature of healthcare expenditure
- **Specialised buildings**, often generating higher returns

Centuria is an established ASX-listed specialist investment manager

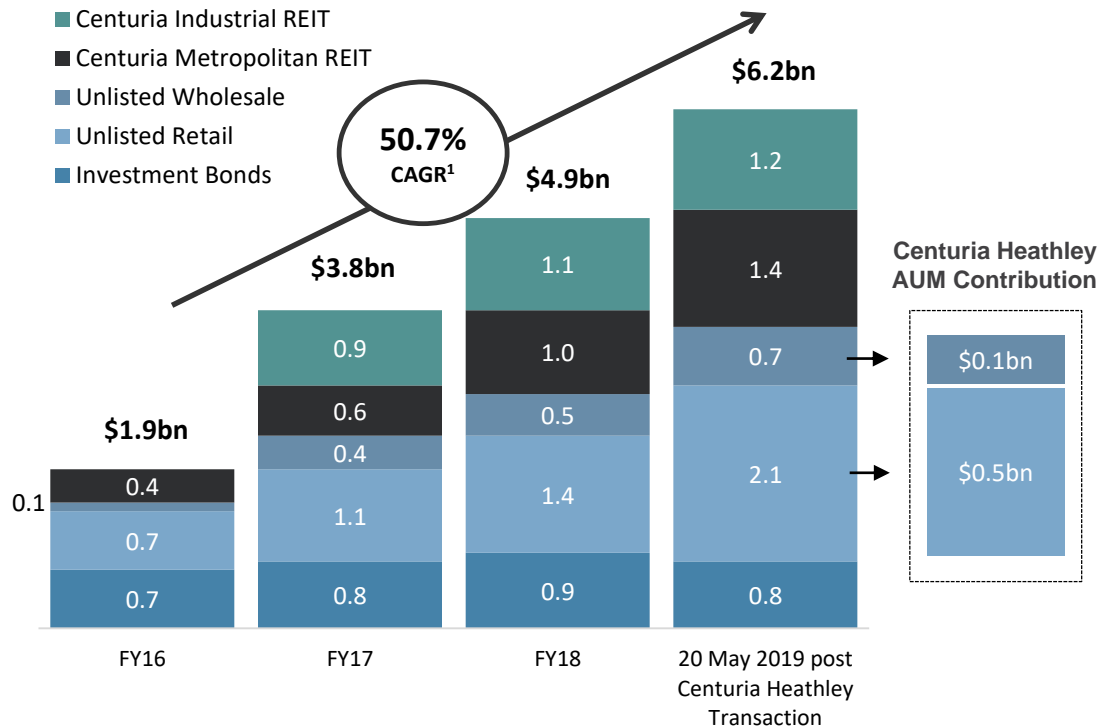


1. Based on CNI closing price of \$1.445 on 18 May 2019

Transaction continues strong AUM growth across real estate platform

- Centuria Heathley transaction ultimately increases unlisted real estate AUM by \$0.6 billion, taking Group AUM to \$6.2 billion
 - Follows strong AUM growth of \$0.7 billion in 1H19
 - Provides access to new capital sources in unlisted retail and unlisted wholesale mandates
- The Transaction adds a new asset class with strong fundamentals and a specialised management team to Centuria's real estate platform
 - Centuria's platform now aligned to three strong performing real estate sectors
- Centuria is one of the fastest growing Australian real estate funds managers in its peer group with annualised AUM growth of 50.7%¹ since FY16

Assets Under Management (\$bn)



1. Past performance is not indicative of future performance
 2. AUM as at 31 December 2018 with pro forma adjustments to reflect Centuria Heathley Transaction

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