

24 June 2019

Update: Trading, Annual Distribution and Strategic Review

Australia's leading owner, operator and manager of retirement communities, Aveo Group (ASX: AOG, "Aveo") today released an update regarding its FY19 trading, FY19 annual distribution, future change to revenue recognition in the Underlying Profit, as well as an update on the strategic review process.

FY19 Trading

At its 2018 Annual General Meeting held on 14 November 2018, Aveo advised it would not be confirming FY19 EPS guidance in light of deteriorating residential property market conditions across Australia and uncertainty around future retirement sales and settlement levels. Aveo also confirmed that a full year distribution was being targeted based on the payout range of 40%-60% of underlying profit.

Aveo further updated as part of its HY19 results on 13 February 2019, that residential property market conditions across Australia were continuing to adversely impact the time frame for settlements and that the number of settlements was expected to be weighted to the second half of FY19.

The Australian residential property market remains subdued, although there has been some improvement since mid-May. This continues to have an adverse impact on the timing of prospective residents who are seeking to settle on their existing properties and move into seniors living accommodation.

Resident interest in Aveo's retirement product remains strong with 1,111 total written sales to the end of Week 51. This translates to an effective weekly net written sales rate that is up 20% on the same period last year. Momentum has continued to build in the fourth quarter of FY19 with an average of 23 net sales written per week, up from 19 in each of Q1 and Q2 and 20 in Q3. This momentum has led to a substantial increase in the number of deposits on hand; from 212 at 31 December 2018 to 297 at 21 June 2019 (end of Week 51). Settled sales of 814 for FY19 had been recorded by that date.

Aveo advises that its reported results for FY19 will be adversely affected by these conditions. While financial information is still being finalised and will be subject to audit review, Aveo expects final settlements will be in the order of 900 and Underlying Profit for FY19 will be in the order of \$50 million (Underlying EPS of 8.6 cps). The Statutory Profit result will be subject to the review of asset values for impairments in accordance with standard financial audit procedures.

About Aveo

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 94 retirement communities across Australia.

www.aveo.com.au

FY19 Annual Distribution

Aveo also announced today that its estimated annual distribution for the year ending 30 June 2019 will be 4.5 cents per stapled security. This is within guidance of distributing 40% to 60% of Underlying Profit after Tax. The record date for determining entitlement to the distribution is Friday, 28 June 2019 with the payment of the distribution anticipated to be made on Monday, 30 September 2019.

As previously announced, Aveo Group's Distribution Reinvestment Plan (DRP) remains suspended and therefore will not operate for this payment.

Major Development Units: Change of Treatment in Revenue and Underlying Profit Recognition in FY20

Underlying Profit is a non-IFRS measure used by Aveo's directors and management to assess the performance of the business. In calculating Underlying Profit, Aveo currently recognises revenue from major development (new) units on a delivered basis. This treatment has been consistently applied in calculating the reported Underlying Profit and Statutory Accounts each reporting period.

Effective from 1 July 2019, Aveo will change the timing of recognition of revenue in Underlying Profit for major development units from a delivery to a settlement basis. This will result in revenue and profit on major developments being recognised on a cash basis in the Underlying Profit.

There is no impact on Statutory reporting as Retirement Communities will continue to be treated as investment property and major development units are included in the assessment of fair value (with no recognition of revenue). Therefore, there is no change to the accounting treatment and the presentation of the consolidated income statements in the half-yearly and annual financial reports. For FY20, reporting of revenue in Underlying Profit will be recognised on major development new units at settlement, irrespective of whether the new units were delivered pre or post 1 July 2019. The adjustment related to profit on delivery recognised for units delivered before FY20, but settled after FY19, will be presented as an adjustment to the Underlying Profit. The Underlying Profit will then be reconciled to the Statutory Accounts.

At the FY19 full year results announcement in August 2019, Aveo will provide restated Underlying Profit data for the FY17-FY19 financial years based on recognising major development new units on a settled basis.

This change will make it increasingly difficult for Aveo to provide future underlying EPS guidance as, unlike residential sales where the exchange of a contract is binding between the vendor and the purchaser, the sale of retirement units is not binding until settlement.

Strategic Review

On 30 November 2018, Aveo's Board announced that it had established an Independent Board Committee ("IBC") to consider and respond to interested parties as part of a Strategic Review and that the IBC had approved commencement of the first stage of a Strategic Review process.

Aveo provided a further update on the Strategic Review process on 13 February 2019, advising that at the conclusion of the first stage in late January 2019, a number of indicative, non-binding bids were received from parties interested in a whole-of-company transaction.

The IBC, together with Aveo's advisors, invited shortlisted preferred parties into the second stage of the process which commenced in late February 2019. The third and final stage of the process commenced with two parties in April 2019. Aveo provided an additional update on 30 April 2019, confirming that due diligence was continuing and reiterating that there was no certainty that an acceptable offer would eventuate.

During May and June 2019, Aveo has been actively engaged with a preferred party. Following extensive due diligence, Aveo received a confidential non-binding and conditional indicative proposal (the Indicative Proposal), from the preferred party. Aveo has been negotiating with that preferred party in respect of the Indicative Proposal, with a view to entering into definitive agreements leading to a Scheme of Arrangement, to give effect to the Indicative Proposal. Any such definitive agreements would be subject to the usual fiduciary carve-outs e.g. in relation to a superior proposal.

The IBC has indicated that if the agreements leading to a Scheme of Arrangement cannot be agreed by Monday, 22 July 2019, the whole-of-company sale transaction process will be discontinued.

There is no certainty that the Indicative Proposal will result in an acceptable offer for Aveo securityholders or that a transaction will be implemented.

Aveo securityholders do not need to take any action at this point in time and there is no certainty that the Indicative Proposal will result in a transaction.

Aveo will keep securityholders updated in accordance with its continuous disclosure obligations under ASX Listing Rules.

Merrill Lynch Markets (Australia) Pty Limited is acting as financial advisor and Herbert Smith Freehills as legal advisor to Aveo.

FY19 Results

Aveo will release its full year results for the year ended 30 June 2019 to the market at 10:30am (AEST) on Wednesday, 28 August 2019, at which time a presentation will be webcast on the Aveo Group website www.aveo.com.au.

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