

## **NZX AND ASX RELEASE**

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### **SUMMERSET ANNUAL MEETING – CHAIRMAN AND CEO ADDRESSES**

#### **Chairman's Address**

Thank you for joining us for Summerset's fourth Annual Meeting since listing.

2014 was another positive year for Summerset, with increased growth and profit achieved. The year was also characterised by two other things: firstly, strong investment into new villages which will secure Summerset's ongoing growth and, secondly, ongoing development of the business with the goal of being a leader in this sector.

I will discuss our growth and financial results firstly. In 2014 we opened four new villages and three village centres, building 261 retirement units and delivering 42 care beds. We also welcomed residents to our 2,000th unit for Summerset, which was in Katikati, and we're very proud of the fact that more than 3,000 New Zealanders, across 20 villages nationwide, now call Summerset home.

From a financial perspective in 2014 we delivered a record underlying profit of \$24.4 million, an increase of 10.2% on the 2013 financial year. Our net profit after tax for the year was \$54.2 million, up 58% on 2013. Sales of occupation rights were 14% higher than in 2013, with a record 458 rights sold. New sales growth was a key contributor to this, with 286 sales, up 25% on the previous year. Resales of occupation rights were flat compared to 2013, a result of the natural variation of the availability of retirement units for resale. Demand for occupation rights is very robust, and indeed at 31 December 2014 there were only 26 unsold resale units across the entire group.

These results enabled us to declare a total dividend for the year of 3.5 cents per share, up 7.7% on the full-year dividend for 2013. This payout represents 31% of underlying profit for the year and is in line with the company's stated dividend policy of paying between 30-50% of underlying profit. As the board has signalled previously it is our intention to keep the dividend payout at the bottom end of the stated policy range due the strong growth which the company is experiencing.

Now I would like to discuss the investment we made into new villages last year which secure Summerset's ongoing growth. Last year we opened four new villages and three care centres. This was a record for us both in terms of the new villages we opened and the new care centres we opened. This is testament to the demand we see across the country for the village and care services which we offer. This bodes well for the future of the company. However, opening villages and care centres does come with a short term cost. As a result our earnings growth was slower in 2014 than previous years. We are in this business for the long term and the investments made in 2014 are all performing well and will deliver returns in 2015 and beyond. As the company grows in scale we anticipate that there will be less volatility in our earnings from such investments.

Now I shall turn to the ongoing development of the business and our goal of being a leader in this sector. I shall talk a little about how we think about being a leader and then move on to talk about some of the things we are doing to accomplish this.

The average entry age of people buying independent living occupation rights in our villages is 78-80. For care apartments and people entering care it is higher again. Our goal is to create a community which enables people who have chosen to enter one of our communities to enjoy their time in a meaningful and fulfilling way, as much as is possible for them. We are very clear that each person entering one of our communities is an individual and what is important will differ for each person. Our goal is to facilitate a community which allows each individual to be able to do what is important for them. This is the opposite of an institution. We aim to create communities which reflect the individuals in them, we do not create institutions.

There are very many ways in which we work to create these communities. Choice is a big part of this. This extends from choices over units, choice of care options, choice of food and many other things besides. Respect for people, their homes and their choices is another part of this. We firmly believe that a unit which a person has purchased under an occupation right agreement, or a care room which they are occupying is their home and it is important to extend all the usual courtesies. We knock before entering, we encourage people to have pets, to have guests and to decorate the unit as their home. Whilst these might sound like small things they are things which often set us apart from others.

We are shortly sponsoring Atul Gawande to come to the Auckland Writers' festival. Atul has recently authored the book, "Being Mortal". The essence of this book is that life should be meaningful and fulfilled wherever possible. This is a philosophy we very much try to emulate in what we do.

We know we are doing a good job in delivering this philosophy. What our residents and their families think of how we do things is very important to us. Last year our customer satisfaction results were 97% satisfied or very satisfied for village residents, and 93% for those in our care facilities. This is an industry leading result.

But we also know that we must continue to work on our offering and build the business to both deliver ongoing improvements to how we do business and also to set a platform for the growth which is ahead of us.

Julian Cook commenced as CEO last year. Alongside this we have placed a strong focus on building our leadership team for future challenges, welcoming several new people to our Executive team and ensuring that we have a Board in place with the right mix of skills and experience. Throughout the business also we have been focussed on continuing to lift the level of capability of our people, particularly those in middle management and leadership positions.

More than three years on from listing on the NZX, we continue to build the business as planned and set strong foundations for the future. By strengthening our systems and processes we will ensure we continue to lead in the sector, offer the very best experience and levels of care to our residents and prepare the business for continued growth.

We are on track to meet our targets and are in a strong position to continue to develop more villages around the country, bringing our offering to new markets.

An example of the work we are doing is in the care side of our business. Care is a very important part of village life, and we are committed to excellence in care and making a real difference in the lives of those we care for. To this end, in 2014 we established a Clinical Governance Committee at Board level. We also continued to strengthen our quality control and internal audit systems, increased our investment in clinical oversight and education, and increased the wages of the caregivers who are the heart of the care we provide.

I will touch now on the land we have purchased in Lower Hutt and the shareholder sponsored resolutions which we will deal with in the meeting. In 2013 we purchased land in Lower Hutt, bordering Boulcott's Farm Heritage Golf Club. We have had strong support shown from prospective residents in the area, with nearly 300 people registering interest.

We are currently in the process of working towards gaining consent to develop the village. As is the case with many community developments, there has been some local opposition to the development, including a resolution today that a shareholder has requested we include, as is their right. This will be discussed at the appropriate time in today's proceedings, when the resolution is heard. The Summerset Board is unanimously in support of the Boulcott development and the professional manner in which management has acted throughout the process. We believe this will be one of the premier villages in Wellington, serving a community in need of retirement communities so that people do not need to move out of region. Over the coming months, we look forward to continuing to work with the Council and community to make the village a reality.

Looking to the year ahead, we are very well placed to deliver more than 300 retirement units and a development margin of 17% or greater. Our current landbank now stands at 1,881 retirement units and 556 care beds: enough to provide more than six years of growth at our targeted build rate of 300 retirement units per annum.

We continue to trade well, as you will no doubt know from our quarterly sales results. In all other areas of business we are also performing well, and are very pleased with the progress we have seen so far in 2015. At the release of our full year earnings for 2014 we stated that we expected earnings growth in 2015 to be higher than that achieved in 2014. We continue to reiterate this.

I would like to thank you all for your ongoing support of Summerset. In order to be the first choice provider of retirement home living and aged care services in New Zealand, we need to be leaders in everything we do, paying close and constant attention to every aspect of our business, making improvements in our efficiency and in the quality of care we offer. To deliver this level of experience and to achieve these goals we depend on the willingness of investors to continue to support us as we grow; and for this we thank you.

### **CEO's Address**

Good afternoon and welcome. It's now more than a year since I began as Chief Executive Officer, and we're at a very exciting point in Summerset's history. While we're much younger than many others in the sector - only 18 years old - we've achieved a significant amount in that time, and are poised for strong growth well into the future. In the space of less than two decades we've become one of the largest operators and developers in the retirement the sector, and on many measures we're the fastest growing.

As of today, we have 20 villages and four land sites in various stages of development across the country. We have more than 3,000 residents and have built more than 2,000 retirement units. We have industry-leading customer satisfaction ratings and are well positioned to make a real and positive difference to people's lives, and to grow as a business at the same time.

As a business providing services to older New Zealanders, predominantly over the age of 75, 'growth' is a word increasingly associated with this demographic. Statistics New Zealand population forecasts show that the number of New Zealanders aged over 75 will increase from 260,000 in 2011, to 540,000 in 2031 and then 820,000 in 2051. We are well placed to

play a strong and active role in this growth, focusing strongly on delivering an excellent experience and quality of care for our residents.

It is this customer-centric view that, I believe, sets us apart. For us to continue to grow and develop as leaders, it is essential that our customer needs are foremost in our mind in everything we do. Our goal is to be the first choice operator of retirement village and aged care services in New Zealand. As Rob mentioned, one of the things we're proudest of, is the 97% and 93% satisfaction rates from our residents and our care centre residents and their families respectively. In essence, we are a business whose primary goal is to create villages that enhance the lives of our residents and help to provide enriching communities for older New Zealanders.

Our staff are critical to us making this vision a reality: they are the ones who work with residents and their families on a day-to-day and week-to-week basis to make a positive difference in their lives wherever they can. I would like to take this opportunity to acknowledge the commitment and passion they show and the invaluable role they play in making us who we are.

2014 was a year of strong investment in the business, strengthening our people, systems and processes to support sustainable growth and long-term value creation, and to ensure we're providing the best-quality experience for our residents.

On the people side of this, Summerset's staff numbers grew by nearly 100 during 2014, reflecting the strong growth of the business. Alongside this we have also been focussed on lifting the capability and leadership across the wider business. At Executive Team level we welcomed three new people to the team. Scott Scoullar joined us as Chief Financial Officer; Carol McNaught as General Manager Human Resources; and Sadhana Raman as General Manager Marketing. We are already seeing positive impact across the business as the result of their leadership.

Well-trained and motivated staff are critical to our success. Over the last few years we have invested heavily in the training of our caregivers and an NZQA certified qualification is now provided to all caregivers. We have recently also extended this programme and now provide qualifications up to NZQA level four.

The topic of caregiver wages was also top of mind in 2014. In 2014 we increased caregiver wages between 2.4% and 7.5%. Caregivers who have higher than the entry level qualification received pay increases of around 7%. These increases are considerably greater than the government funding increase to the sector and we strongly believe that in the longer term the government needs to fund caregiver wages commensurate with the value of the services they provide. In the meantime, however, our aim here is to take a leading position and to commit to a being part of a journey towards caregivers being fairly remunerated for the invaluable work they perform. We welcome members of the Service and Food Workers Union in the audience here today and look forward to being part of continued dialogue on the subject within the sector.

Celebration of the achievements of our staff is important and we hold our annual Applause Awards to do this, recognising staff across all areas of the business. The stories we hear about the dedication and passion of our staff are truly heart-warming. The overall Supreme Applause Award winner for 2014 was Matt Wallace, Napier Head Gardener, for his dedication to creating an extraordinary environment for residents and helping other villages to do the same.

Another key area of focus for us in 2014, and for the year ahead, has been on the importance of care. We understand that our residents have varying requirements when it

comes to care and support, and that a one-size-fits-all approach does not work. As the population ages, care will be an increasingly important factor for those choosing a retirement village, and we are working hard to ensure we offer the very best levels of care, tailored to the individual stages and needs of our residents. As Rob mentioned, the Board has introduced a Clinical Governance Committee to provide guidance and oversight of our clinical operations and to make sure we continually lift the bar in the quality of care we provide and the quality of life our customers can expect. We are also focusing on improvement to our quality systems, improving our internal audit capability and investing further in clinical support, education and monitoring across the group.

In December of 2013 we announced the purchase of two sites in Christchurch, in Casebrook and Wigram. This is a new market for us, and was an obvious gap in our portfolio. We are already building on our village in Wigram, with very strong levels of local interest shown in the development and the largest database of interested prospects in the country. Two weeks ago we held the Friends of Summerset launch for Wigram, where those who have indicated they are interested in living in the village can find out more and move towards securing their home. All three sessions attracted full houses and the demand for Summerset's villas is significant. The only challenge we face here is being able to build at a rate that will satisfy this demand. Through the development of these two villages we will invest more than \$200 million in the rebuild of Christchurch.

Earlier this year we also commenced works in Ellerslie and this site is starting to rapidly transform. There is a large amount of activity on the development side of the business with retirement units and village centres being delivered across 9 sites this year. We have extensions to existing main buildings in Katikati and Hamilton being built, and new main buildings being delivered in Karaka and New Plymouth. Through this year we will also be working on main buildings in Wigram, Hobsonville and Ellerslie. You can see there is clearly a lot of growth for us going on.

I do get asked from time to time how much of this is down to the property market and whether we are a property business. My answer is this, whilst an element of our returns are derived from property, we are a people business tasked with delivering communities and care for older people. This is an important distinction. Ultimately we are answerable to shareholders to generate a return, but we are clear that to do this we must focus on our customers and our staff.

In terms of the property market, clearly it is moving upwards generally across the country and particularly so in Auckland. However, we are conscious that there is a cycle in the housing market. Our business is based on meeting the needs of community and care for older New Zealanders. This needs exists regardless of the property cycle. Our focus is to continue to improve on how we deliver this and to ensure that the business has sufficient capital base to weather any property downturn.

One of the greatest highlights of my role as CEO is travelling around our villages and getting the chance to meet and talk with our residents in person. You may have heard us say on a number of occasions that we love the life our residents bring to Summerset's villages. It only takes one village visit to see just how vibrant the life and energy is amongst Summerset's resident communities. Seeing this, and knowing we play a part in making it possible, is hugely rewarding and is ultimately the reason we do what we do. And of course, everyone in this room plays a very big part in making Summerset's growth possible, and I thank you all very much for being part of the journey with us.

**ENDS**



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**ABOUT SUMMERSET**

- Summerset is a leading nationwide retirement village operator with a focus on providing residents with a continuum of care. The integration of care facilities into Summerset's villages provides residents with the knowledge that care is available for them should their needs change.
- Summerset is the third largest operator, and the second largest developer of retirement villages in New Zealand, with 20 villages across the country. In addition, Summerset has three quality land sites in Casebrook, Ellerslie, and Lower Hutt bringing the total number of sites to 23.
- The company is continually evaluating new sites to support the development of further villages based on demand.
- It provides a range of living options and aged-care facilities and services to 3,000 residents.
- Summerset was named Best Retirement Village Operator in New Zealand and Australia at the Australasian Over-50s Housing Awards in 2010, 2011, 2012 and 2013.
- Summerset's senior management team is led by CEO Julian Cook.
- The Summerset Group has villages in Aotea, Dunedin, Hamilton, Hastings, Havelock North, Hobsonville, Karaka, Katikati, Levin, Manukau, Napier, Nelson, New Plymouth, Palmerston North, Paraparaumu, Taupo, Trentham, Wanganui, Warkworth and Wigram.