

## **NZX & ASX RELEASE**

**27 APRIL 2017**

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

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

Welcome and thank you for joining us at Summerset's Annual Meeting.

With more than 4,200 residents, 700 more than a year ago, growth was a key driver of Summerset's performance in 2016 and strengthens our position as New Zealand's fastest growing retirement village and aged care provider.

Summerset accomplished a number of milestones in 2016. We achieved 658 occupation right sales (new sales and resales), a 14% increase on 2015.

Our development margin hit 22.2%, up from 20% in 2015, and we exceeded our forecast build rate of 400 retirement units, an increase of over 100 homes built from the previous year.

We also recorded a \$56.6 million underlying profit, up 50% on the same period last year and a net profit after tax of \$145 million, a 73% increase on 2015.

The vision for our business is to provide the best of life to our customers, whether they are independent living residents, live in a serviced apartment or live in one of our care centres receiving rest home or hospital care. A gap for us has been offering secure dementia care. Last year we began to close this gap with the opening of our new purpose-built dementia centre at Summerset by the Ranges in Levin – a first for Summerset.

We are particularly proud of this as this is a new area of care for us. It is the first secure dementia centre in New Zealand to offer people living with dementia the opportunity to have their own one bedroom apartment, in a Licence to Occupy model, complete with kitchenette and living room. This gives them freedom and independence, something people living with dementia often no longer have and allows them to have what is a true home for them with their belongings and personal effects allowing them and their families to feel more like individuals living in their home as opposed to be institutionalised. We intend to extend our dementia service to all of our new villages. Our Casebrook village, currently commencing construction in Christchurch, will be the next to offer this type of dementia centre.

This is a real example of how we bring the best of life to our customers through what we do.

We believe there are further advancements which can be made in dementia, both in terms of how those with the condition are looked after, how we diagnose and treat the condition and attitudes and understanding of dementia within the broader society. We have a role to play in this and to that end we have commenced sponsorship of the NZ Dementia Cooperative which is a cooperative group which aims to bring together those with an interest in dementia to further collaborative discussion and research in this important area.

Caregiver wages have been a topical area for some time now and our position has always been clear that wages should be higher and government should fund the sector to achieve this in a sustainable manner. . We are therefore very pleased to see that a settlement has been reached in the equal pay case regarding caregivers and that subject to ratification a substantial increase to caregiver wages will be seen over the next three years. This settlement is fully funded with government and those assessed as private payers under the means testing regime will fund the increased costs of this.

For our caregivers we are very pleased that this is now settled and their worth recognised. We recognise the efforts of the government, unions and the New Zealand Aged Care Association in reaching this historic agreement.

In addition to this we have been working through a range of other non-wage related initiatives designed to improve the work experience for caregivers. These include a review of uniforms which will see a new uniform trialled later this year, uniform allowances for items of the uniform which we do not provide, free meal allowances for overnight and long shifts and improving our training systems for caregivers. We are still working through other initiatives in this area including an improved rostering system and hope to have these implemented over the course of this year.

Another focus area for us is health and safety. We have implemented new systems to collect incident information with the ultimate aim of preventing and reducing harm to our employees, residents and contractors. We will continue to expand and improve this over the next few years. This is carefully monitored through to board level and is improving the experience in our villages for all concerned.

Our expansion in Auckland and Christchurch will be a huge focus for us over the next few years.

In May last year we opened the village centre building at our Hobsonville village and in September we opened the village centre and care centre at our first Christchurch village in Wigram. Earthworks have begun at our Casebrook site for a village that will offer over 170 townhouses and villas, 40 care beds and as mentioned our second dementia care offering.

Christchurch was previously a visible gap in our development portfolio. It is pleasing to be part of Christchurch as it rebuilds helping to ease the significant pressure for quality homes. We expect our development plans in Auckland will also go some way to relieve the housing challenges in New Zealand's largest city.

The first residents moved into their new homes at our Ellerslie village in October. We are on track to complete the village centre and care centre in mid-2017. The village buildings will range from two to seven levels with a focus on creating an attractive environment, which feels like a real home and community people want to be part of. This attention to good urban design is essential to making larger villages work well for residents and surrounding communities.

Our Auckland based developments are currently being delivered in a construction market which is feeling much strain. Our integrated development and construction model whereby we act as the main contractor on sites does insulate us from the cost pressures and delays which are increasingly being seen in the Auckland market. Also our ability to set our own sales prices for units projects us. However, we are not immune from these pressures completely. We have seen one to two month delays on some projects and have also seen cost pressures coming through. Contractor availability is also an issue given the high workload in the market. Our Auckland developments continue to have good demand and development margins and we are on track for a retirement unit build of around 450 units this year. However, shareholders should be aware that these issues exist and that we are focussed on addressing them as best we can.

We continue to carry out planning for our two other Auckland sites, in St Johns and Parnell. We hope to be in a position to apply for resource consent for our St Johns village this year, and are progressing the design for our Parnell village.

Plans for our Boulcott village in Lower Hutt are progressing more slowly than we would like. Late last year a plan change by the council provided us with good design guidance and parameters. Our architects are reviewing plans for the village based on this change and continuing with the design process. We are committed to Summerset Boulcott being one of our best villages yet.

We purchased two new sites for development last year. One site is in Richmond, Nelson and the other in the Hamilton suburb of Rototuna. These purchases bring the total number of Summerset locations to 27 nationwide. We have existing villages in Nelson and Hamilton and have found there is strong demand for retirement living in these areas.

We also continue to invest in our older villages, recently extending the recreation areas at Wanganui and Hastings, and starting construction on new recreation centres at Trentham and Levin.

At the end of 2016, Summerset's total land bank represented approximately 2,609 retirement units and 366 care beds. This is a total of around six years' supply based on our intended build programme for retirement units in 2017 of around 450 units.

Looking forward we have a clear runway of projects. It is our intention to add further sites in the main centres and in provincial locations where we will develop villages on our current model, evolving over time to meet the demands of the market. We face strong ongoing demand. In addition to this what might be described as Summerset "business as usual" we are contemplating how the core model might expand over time. This contemplation includes the possibility of expansion into Australia. This requires the careful and extended research and consideration which it is getting. No decisions have been made in this respect nor are they imminent. The second area of forward thinking is around the wider range of services which we could provide around retirement living and aged care. Again decisions are neither made nor imminent but we are undertaking work on the options, the demand and commercial viability of a wider range of services.

We deliver these results by providing our residents with an offering that meets or exceeds their expectations, ensuring they are proud to live at a Summerset village. Of course we couldn't deliver any of this without the fantastic work and commitment of our Summerset staff. They play an important role in the lives of our residents from the caregivers and staff at the villages to our employees who work on the design and construction of our homes to the staff who encourage people to come visit one of our retirement villages to see for themselves how Summerset brings the Best of Life to its residents.

This year as we celebrate our 20th anniversary and sixth year since listing, Summerset is well placed to continue to deliver quality retirement living and the corresponding financial results from which our residents, staff and investors all benefit.

Summerset has grown very quickly since its listing, and our market, capital resources and people all enable continued growth. Some of this growth will be in new or expanded physical assets, while other parts will be in the development of a wider range of services. In the coming year, the Board will give a lot of attention to the best allocation of resources to achieve the best outcomes for the business and our residents.

My thanks to a very dedicated board for their thoughtful and active involvement in the direction of our business – we have a very skilled and hardworking board who are always readily available and responsive to working with the executive team.

## **CEO's Address**

As Rob mentioned, 2016 was a big year for us in terms of growth as we continued to focus on further expansion throughout New Zealand, reinforcing our position as one of the country's largest retirement village developers and operators.

Summerset's simple philosophy of "Best of Life" respects the wonderful lives residents bring to Summerset villages.

The annual resident and care satisfaction surveys are a key test of whether we are delivering on this.

Focussing on what our residents want is the key to our continued growth. Each year we ask our residents how we're doing via our resident and care satisfaction surveys. This is just one way we measure our success and receive feedback on how we can improve our services.

Our performance in 2016 was 94% satisfaction for people living independently as well as residents living in our care facilities. Our care satisfaction results are the highest of all the nationwide operators and we are very proud of our staff in our clinical teams who have helped to achieve these. Of course, there is always room to do better and this will, as always, be something we focus on in 2017, both through our services in the villages and by talking with residents during my regular village visits. Village visits are a vital and enjoyable part of my role. Making sure residents and staff know they can speak directly with me is important and something I will continue to do even as we continue to grow.

Staying connected with residents, staff and village life is an essential part of my role. This openness, respect for our residents and focus on continually improving our services and village environments is what I believe makes Summerset the success it is.

For many people the social life and events at our thriving Summerset communities is a big factor in their decision to move to one of our villages. We now provide free drinks at the popular weekly happy hours – this is one of the ways we say thanks to our residents.

We have also introduced a nationwide exercise programme at all of our villages called "Use it or Lose it". This has been very popular with residents and is designed to provide a range of beneficial exercises in a fun and interactive environment.

Each village has an activities co-ordinator whose role is to ensure there is always something happening. This year we've had many great village events, including It's in the Bag, masquerade dances, market days, concerts, residents' wedding, fashion parades, and even a onesie dance shuffle fundraiser that made it on to the TV news.

We also launched our Summerset Facebook page in September, meaning we can now share these exciting activities with a wider audience.

We have established a fantastic offering that sees us develop new villages efficiently and operate them well, but of course we couldn't do any of this without our 1000 staff who work in a number of diverse roles throughout the country from caring for our residents in the villages, to designing and building our homes. Their exceptional work makes a real and positive difference in the lives of our residents, their families and the ongoing success of Summerset.

Last year we launched a number of initiatives to recognise the wonderful contribution our staff make and position us as an employer of choice.

The first of these was a share scheme that more than 80% of our people have signed up to. The scheme provides each staff member with \$780 worth of shares that vest after three years if still

in Summerset employment. While there is a cost to shareholders from this scheme, we believe it is a worthwhile investment.

In addition to this, to recognise the hard work our caregivers do, and the important role they play in the lives of our residents, we implemented a number of initiatives and staff benefits in 2016, including an annual uniform allowance. Our caregivers, nurses and clinical staff who work overtime, double or night shifts now also enjoy a meal from their village kitchen or café during their shift.

We have discussed the topic of caregiver wages at this meeting and more broadly for a long time. As Rob indicated, we are very pleased that a settlement has been reached in the long running pay equity case and that increased wages for caregivers and funding to match this will come into place shortly. I would personally like to thank the ETU Union and Nurses Unions, and in particular Kristine Bartlett for pursuing this case with such persistence. I know this has been no easy road but I know the benefits will be felt by a great many well deserving people. From a wider perspective I hope also that this settlement goes further than just recognising the important work our carers do but also attracts more people into this sector to work over time and allows us as a country to lift the standard of care which we provide to our older people.

Like many businesses, health and safety is a big focus for Summerset. We are making good progress towards improving our systems and culture with the ultimate aim of preventing and reducing harm to employees, residents, contractors and visitors to our villages.

We now have two full time health and safety managers and implemented an online health and safety system to collect incident data and risk assessments. Our ultimate aim is to prevent and reduce harm to employees, residents and contractors. A particular focus is reducing the number of hand cuts for construction staff and back strains for caregivers. We plan to continue this investment in staff over the next few years as their wellness is a priority for us.

Summerset also holds annual staff awards called the Applause Awards where staff nominate team mates who go above and beyond for our residents and colleagues. This is a celebration of the fantastic work and commitment our staff put in across the business.

Also worth a mention is our Highly Commended award in the *Aged Care and Retirement Villages* category of the annual Reader's Digest Trusted Brand awards. We were delighted with the comments from participants about our villages, including "Summerset villages are the nicest ones I've been to."

Last month Summerset's finance people won the Finance Team of the Year award at the 2017 CFO Awards. We were up against strong organisations such as Xero, Southern Cross and the Department of Internal Affairs, so winning this award is an amazing recognition of the work we do.

We are experiencing a period of demographic change in New Zealand. Our focus will remain on growing the business and refining and improving how we run our villages. For shareholders, this should mean continued growth in earnings. You may be asking what our approach is to the ups and downs of property market cycles. In short, demand for our villages is driven by the increased number of older New Zealanders and the value we offer them in that stage of life. This demand is not driven by the property market. Since opening our first village almost 20 years ago, Summerset has seen two property market downturns and during each, demand for our services remained consistent.

We adopt a prudent approach to debt levels. All of our \$283m debt (as at the end of March) relates to development projects. We recently completed a NZ\$600 million syndicated loan facility refinance, an increase from the NZ\$450 million previously in place, which allows us to continue to fund growth initiatives across both existing and future retirement villages.

With significant excess headroom in our debt facilities which provides us room for future growth and also protection in the event of any downturn.

In Rob's Chairman's address, he discussed pressures we are seeing in the Auckland construction market. Our model protects us to some extent from these pressures but as he said we are not immune. We have a good level of confidence in our Auckland projects and are seeing good customer demand for what will be quality village offerings. We continue to be on track for our targeted retirement unit delivery this year and our development margins are on track also. However, we have seen some delays on projects of around one to two months and we are seeing cost pressures. Looking at the pipeline of general construction activity in Auckland we expect that the market pressures we are seeing are likely to continue to some years to come and we are mindful that we will need to plan and execute carefully to be successful in such a market.

Thank you to our investors who continue to support Summerset, and provide us with the resources to be able to build new homes, our residents who have chosen a Summerset village as their home, and our staff, who work to ensure our residents love the life they lead at Summerset.

## **ENDS**

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## **ABOUT SUMMERSET**

- Summerset is one of the leading operators and developers of retirement villages in New Zealand, with 21 villages across the country. In addition, Summerset has six sites for development in Richmond, Rototuna, Casebrook, Lower Hutt, St Johns and Parnell, bringing the total number of sites to 27.
- It provides a range of living options and care services to more than 4,200 residents.
- Four-time winner of Retirement Village of the Year and Silver Award winner in the Reader's Digest Quality Service Awards 2016.
- The Summerset Group has villages in Aotea, Dunedin, Ellerslie, Hamilton, Hastings, Havelock North, Hobsonville, Karaka, Katikati, Levin, Manukau, Napier, Nelson, New Plymouth, Palmerston North, Paraparaumu, Taupo, Trentham, Wanganui, Warkworth and Wigram.