



**ANNUAL MEETING – CEO’S ADDRESS
28 AUGUST 2018**

Thanks Liz and, as Liz has already said, a warm welcome to everyone here today.

It has indeed been a quite a year at Oceania Healthcare over the 12 months to 31 May 2018 and we’ve delivered you significant growth in earnings over this timeframe. We’ve exceeded the financial forecasts that we provided to you at the time of our IPO last year and as Liz has just mentioned paid out a dividend which is also in line with our forecasts.

In this industry, proving a track record is the key to long term sustainable growth in shareholder value and I believe over the past year we have certainly begun to prove our capability in the design, construction, selling and operating of premium aged care and retirement village facilities. In particular, we are demonstrating our point of difference through the weighting of our portfolio in care and the higher returns generated from our care suite product, and I’ll elaborate on that shortly.

But first I’ll run through the financial results for the year ended 31 May 2018, and as I’ve already mentioned, the growth in earnings was certainly the highlight of the year and delivering to the targets set at the time of the IPO, a significant achievement. Our reported net profit after tax of \$77.0m was \$32.1m or 71.5% higher than the prior corresponding period due to a significant increase in the fair value of our investment property, including a \$23.4m increase from the completion of Stage 3 at Meadowbank and a \$26.9m increase in our existing retirement village assets.

Our underlying net profit after tax was \$52.1m which is \$18.1m or 53.1% higher than the prior corresponding period due to higher resale margins on retirement village units and care suites, as well as the sale of our new retirement village units delivered in Auckland – particularly at Meadowbank Stage 3 and the Lady Allum Attwood apartments in Milford.

Our aged-care business generated average EBITDA per bed of \$11,742 which is 4.8% lower than last year, with occupancy declining by 2.3% to average 88.1% over the year. I will explain our aged-care strategy in more detail shortly, but in brief, the reasons for the decline in earnings from our Care business were the unfunded portion of the equal pay settlement and lower occupancy at the sites that are either currently under development or being divested.

We recorded strong growth in premium room charges over the year, with Care suite DMF revenue increasing to \$3.6m, up 21% on last year, and Premium Accommodation Charges increasing by 19.3% to \$6.8m. Our Average Premium Charge of \$13.67 in 2018 was 20.8% higher than in 2017.

In our Retirement Village segment, resale gains were 0.5% higher at 27.9%, which is at the very high end of comparisons to our listed peers. A development margin of 33.5% was recorded which reflects the higher-value units sold in our three Auckland villages – Lady Allum, Elmwood

OCEANIA HEALTHCARE

2 Hargreaves Street, St Mary’s Bay, Auckland 1011
PO Box 9507, Newmarket, Auckland 1149, New Zealand
P +64 9 361 0350 F +64 9 361 0351
www.oceaniahealthcare.co.nz

and of course Meadowbank Stage 3. Sales volumes were also higher year-on-year in both resales (independent living units and Care Suites) and new sales.

The embedded value in the portfolio increased over the year – from \$183.1m in 2017 to \$210.7m in 2018. This measure is essentially the difference between the current resale value of all existing units in the portfolio and the amounts that we would have to pay to all outgoing residents. It is a good leading indicator of future deferred management fee and resale gains, and has been increasing steadily year-on-year over the past four years.

Our net operating cashflow of \$82.2m was \$43.3m (111.3%) higher than last year due to the new unit sales achieved, particularly in the second half of the year, as well as the new capital structure which meant that we paid lower interest over the period.

Finally looking at our balance sheet as at 31 May 2018, and total assets are now \$1.15bn, an increase of \$229m (24.9%) year-on-year. This increase was driven by significant development capital expenditure during the financial year and revaluation gains following the completion of key developments. Our total net debt as at 31 May 2018 of \$150.8m represents a 21.9% gearing level, with \$101m of drawn development debt against work-in-progress and \$62m of other debt that funded the acquisition of Waimarie Street and surrounding properties, as well as the other sites that we purchased adjacent to Eden Village, Lady Allum and Elmwood in the year.

I'll now move onto an overview of the Care segment of our business.

As you all know, the two key differentiating features of Oceania Healthcare compared to other operators is the greater proportion of our portfolio in aged-care beds and our substantial brownfields development landbank.

Aged care is at the heart of our business – it is our core competency and we are market leaders in the delivery of the highest levels of clinical care. We have a comparatively higher mix of hospital level care beds in our portfolio compared to other operators and are continuously innovating in both service delivery and product offering. This was proven once again during the past year with Oceania Healthcare winning the Overall Excellence in Aged Care Award at the New Zealand Aged Care Association Conference for the third year in the row. We won the award for our “I love Music” programme, which those of you who were at last year's Annual Shareholder's Meeting will remember. If you weren't here, then there are some resident testimonies from this programme on our website – be warned, they are real tear-jerkers.

Aged Care is an important business to be in – it is “needs-based” which means that demand is somewhat insulated from economic cycles or whatever the property market may be doing. What we mean by this is that residents who come into Care are not making a “lifestyle” living choice – they are making the choice out of necessity – when they need Care they tend to need it immediately.

Care suites are at the core of our growth strategy in aged care, with these premium, certified beds capable of delivering both rest home and hospital level care to our residents. This enables residents to remain in the same room throughout all care levels, with care being subsidised if the resident's assets are below the Government threshold. This full-service capability sets care suites apart from serviced apartments in the sector, which are generally independent living units only capable of delivering low level care services and many are non-certified.

As we recycle our capital by selling care suites under occupation right agreements, we also realise a deferred management fee at the end of the tenure whilst also generating aged care

earnings by delivering care services into the room. This model effectively provides the higher earnings streams that are required to justify an investment in new aged care assets.

As the wave of a new generation of residents is growing, they are also demanding so much more than traditional rest homes have provided. Oceania's aged care growth strategy will deliver the superior product and services demanded by these customers, as we are currently demonstrating at our new Meadowbank care centre that opened in February. Residents at Meadowbank are experiencing never seen before choices— food to order by our executive chef, a guest services coordinator and a concierge services team.

As we deliver our new aged care redevelopments and reposition the portfolio with a greater proportion of premium rooms, we will be able to generate higher returns from this business.

I'll now turn to Developments.

The other key differentiating feature of Oceania as I mentioned earlier is the scale of our brownfields development pipeline. We have sufficient land within our existing portfolio to construct over 2,100 care suites and units and we have phased these developments so that we deliver between 250-300 beds and units per annum over the next seven years. Both pre-IPO and after, we have been getting Resource Consents in place and today over 60% of the pipeline is consented – including our most prominent sites in the major metropolitan regions. Having Resource Consents in place substantially de-risks our future build volume and enables us to effectively arrange resources and stage projects to manage development debt levels. With regards to development debt, we have recently increased and extended the maturity of our debt facilities to provide us with certainty and flexibility to execute our development pipeline over the whole seven-year period, with a prudent gearing level being maintained throughout this time.

As Liz noted in her message, at the time of the IPO we said that we would complete 97 retirement village units and 30 care suites in the year to 31 May 2018 and we did just that with Meadowbank Stage 3, and the Elmwood villas in Auckland as well as new villas in Nelson and in Taupo, all delivered on time and on budget – which is an outstanding achievement given the tight construction sector.

Right now we have a further 451 beds and units under construction across five sites – Meadowbank Stage 4 and The Sands (Browns Bay) in Auckland, The BayView in Tauranga, Trevellyn in Hamilton and Green Gables in Nelson – with stage one of The BayView (81 Care Suites) due to complete in a few months and Meadowbank Stage 4 and The Sands expected to be completed towards the end of the 2019 financial year. This is a total of 272 beds and units that we will build in this current financial year.

Now I'd like to give you an overview of the five sites that we currently have under development, to give you a closer view on progress and some comfort that the execution of our growth strategy is certainly well underway. I'll also cover some of the exciting new land acquisitions and larger site redevelopments that we progressed during the year in Auckland.

Firstly Meadowbank, and as I just mentioned we delivered Stage 3 in February this year - 62 Apartments and 30 premium care suites - and a fantastic new community centre which is the centrepiece of the site. We have received excellent feedback from our new residents, their families and our investors with regards to the design and construction quality of this stage which is selling well with 73% of apartments sold or under application already, only six months post-completion, as well as 53% of the available care suites. Stage 4 is also well on track for completion within the next financial year to 31 May 2019 and this will deliver a further 49

apartments and the balance of our Care facility (34 care suites). Following the completion of Stage 4, we will immediately commence stage 5, a further 26 apartments, before finishing the site with stage 6, our recently consented dementia care suite building located towards the rear of the site.

At The Sands, we are progressing well as the photos show, with the roof going on to the southern side of the building already and the final floor in progress on the northern side. Our programme shows that we should be completed construction by May next year with 64 Apartments and 44 Care Suites coming to the market. We have had an extraordinary amount of interest in the site from prospective residents as you can imagine with its unique location, and will commence our presales programme next month with a significant database of interested parties already assembled.

Stage 1 of The BayView – our new name for Melrose in Tauranga, comprising 81 care suites - commenced in the middle of last year and is being developed alongside our existing care facility, meaning that once we are complete around October this year we will transfer our residents over to the new facility and commence operations with a good occupancy level from day one. We will then demolish the older care facility and make way for stage 2, comprising 74 apartments and our community centre which will service the remainder of apartment stages in this development – eventually comprising over 230 units. Stage 2 will be commenced early next (calendar) year.

Trevellyn is our premium site in Hamilton, very close to the centre of town, and we commenced stage 1 earlier this year which comprises 90 care suites being developed again alongside our existing care facility (like The BayView). This means that, once we are complete in the 2020 financial year, we will be able to transfer residents from the older facility to the new one and then make way for future stages. Stage 2 of this development comprises the community centre and first apartment stage and is due to commence in the 2020 financial year.

Green Gables in Nelson has just commenced construction last month and is being developed as one complete project comprising 28 apartments and 61 care suites. This site is very close to the city centre in Nelson in a high value area of the region with good demand for aged care, and this development is also due to be completed in the 2020 financial year.

Waimarie Street is our greenfields development site that we acquired late last year with the original property comprising 8,945sqm. This has since been significantly enlarged by the purchase of a number of surrounding neighbours, such that the site is now 50% larger at 13½ thousand sqm. Our initial design plans show the potential to develop a premium boutique aged care and retirement village facility of approximately 116 apartments and care suites on this enhanced site.

We also announced during the year that we had purchased land adjacent to our Eden Village in Auckland, as shown in the red shaded box in this picture, with the original property further enlarged by the subsequent acquisition of another neighbouring site. This enables us to expand our Eden retirement village with the development of 47 apartments, a community centre and undercroft carparking to supplement the existing village. A Resource Consent application for this development has just been lodged with Auckland Council.

At Lady Allum Village in Milford, we completed a stage of 44 retirement village apartments that we called the Attwood Apartments in April 2017 and these have since been largely sold down. We have subsequently obtained a Resource Consent for the redevelopment of the area where the existing Care building is located, and expect to commence construction of our new Care

facility towards the Brook Street side of the site late next year. Once complete, we will further redevelop the centre of the site – comprising 32,000 square metres in total – with several levels added to the existing configuration.

We also acquired property neighbouring our Elmwood Village in The Gardens, Manurewa, and this land purchase will enable the development of a new Care facility adjacent to our existing village of 129 units. A Resource Consent application for this development has also recently been lodged with Auckland Council.

And finally at Windermere, located in the premium suburb of Papanui in Christchurch, we have Resource Consent in hand and are well advanced in preparations for stage one to commence early next year – comprising 60 care suites and 22 apartments, along with our new community centre. This is another one of our key brownfield development sites around the country located in a prime metropolitan location.

In summary, it is very satisfying to have delivered on our financial forecasts and be well on our way to executing our growth strategy through the build out of our brownfields development pipeline and transformation of our Care portfolio.

The management team at Oceania is focused on delivering you consistent year on year growth as we build, sell and operate great new facilities across the country.

ENDS