

NZX & ASX RELEASE

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SUMMERSET ANNUAL MEETING – CHAIRMAN AND CEO ADDRESSES

Chairman's Address

Introduction

It is my pleasure to address you today, this being my second annual general meeting as Summerset's Board Chair.

Over the past year Summerset has made significant achievements in delivering on our strategic goals despite significant challenges that were driven by global, economic, and climatic events.

New Zealand experienced its most difficult year combatting COVID-19 in 2022, requiring continued precautionary restrictions on visitors to our Summerset villages and residents, and border closures for half of the year meant that a much-needed migrant workforce was unable to be accessed to ease health care staffing shortages.

Our economy was under pressure with increasing inflation, supply chain constraints (which have since improved), and a falling property market, all seemingly creating a perfect storm, but one that we were well equipped to deal with while maintaining focus on delivering value for our residents and shareholders.

Our communities' resilience was forcibly challenged by significant weather events throughout the country, particularly in the Hawke's Bay region at the start of this year, resulting in a heightened and urgent call for government and corporate leaders alike to be accountable and demonstrate their actions to drive a sustainable future.

Summerset takes its commitment to sustainability seriously and has worked hard to embed sustainability across the business.

Over the last five years we've significantly reduced our waste, become the first retirement village operator to obtain sustainability linked lending, introduced a science-aligned emissions target, and joined the Climate Leaders Coalition. We are at the end of our first five-year carbon emissions reduction target, and we'll set another ambitious short-term target to continue to challenge ourselves to do better.

Despite this backdrop we continued to experience strong demand for our offering assisted by a growing population aged 75+, and a desire for improved lifestyle, health, and a greater sense of community.

We also delivered more new homes than forecast and continued to strengthen our development pipeline.

In any year, these are significant achievements, but against the challenges of 2022 they are even more so, and I must commend our Executives and the team for these successes.

I will now provide a brief outline of our progress in the 2022 financial year, and which are fully detailed in our Annual Report.

Financial and business performance

For the 2022 year we achieved:

- an underlying profit of \$171.4 million, up 21.5% on 2021
- a net profit after tax of \$269.1 million, down 50.5% on 2021, reflecting a level of non-cash fair value movement more consistent with historical trends, whereas FY21 was influenced by the very strong property conditions at the time
- we sold 537 new occupation rights and made 470 resales
- net operating cash flows of \$369.2 million
- total assets are now \$5.8 billion
- gearing at 32.4%, which is significantly below our 50% LVR covenant level, and our core gearing ratio with Australia debt excluded was 26.4%
- a total dividend payment for 2022 of 22.3 cents per share – up 20.5% on 2021
- 625 units and 26 care beds built under Occupation Right Agreements, which was above guidance

NZ growth

In 2022 we opened two new villages in Cambridge and Prebbleton, and completed the new main building in our Kenepuru village which was our largest build to-date and the sixth of our villages to incorporate our state-of-the-art memory care centre. Main buildings also form the heart of our villages, providing a vibrant community hub for residents, staff, families, and friends.

We strengthened our development portfolio with the acquisition of two sites in New Zealand – Masterton and Fairy Springs in Rotorua – and as at the end of December had 18 villages in construction across 10 regions.

Over 50% of all of our retirement homes have been delivered from 2015 onwards. The steady state of our villages once they are fully mature are considerably more cash positive than what you can see in our accounts. The steady state of our free cash flows are expected to be over \$230m annually.

As our business model currently has a heavy emphasis towards growth, our portfolio is correspondingly relatively young and the shorter term cashflows are not reflective of what you would expect to see when the portfolio is at full maturity.

Over time we would expect to see a significant uplift in resale gains and deferred management fees realised, along with increases in care and village fees.

Summerset holds New Zealand's largest retirement village land bank with potential to build a further 5,224 units and care beds, and we have been the top listed retirement village builder in New Zealand for several years. Again this year, our build rate means we are also one of the top residential builders in the country.

We are proud to be providing high-quality warm homes at reasonable prices for retirees, and we have the capacity, the consents, and the construction team to continue to do so for some time to come.

Australian Expansion

Our Australian business continues to move forward well and, like New Zealand we retain the ability to slow down or speed up the entry into this market as demand dictates.

Australia's rapidly growing elderly population is forecast to see those aged 75+ increase by 140% to 4.1 million in the next 30 years.

With the acquisition of two further sites in Victoria – Drysdale and Mernda – we now have seven Australian sites giving us excellent capacity looking forward, with a land bank with potential capacity to build over 2,100 units (including 450 care beds) and an aggregate projected investment of \$1 billion.

Our first Australian retirement village in Cranbourne North is the most advanced of our properties with construction having commenced on our first villas recently and first residents projected to move in early 2024.

Our site in Chirnside Park was consented in early November following a unanimous vote by the Yarra Ranges Council. It is pleasing to have secured the permit in under nine months, which now paves the way for construction to start later in 2023.

Operations

Summerset achieved a significant milestone in 2022, proudly celebrating its 25th anniversary of operation. Across Australasia we now have 39 villages completed or under development and a further 11 earmarked for development.

We have more than 7,400 residents and 2,400 staff.

Our care offering, and our continuum of care model, is a very important part of why residents choose to live at Summerset. Residents want peace of mind that their needs will be met if their care requirements change while living in our villages.

We have invested more in care this year. Our care centre refurbishment programme is well underway in our Havelock North, Trentham and Levin villages, to ensure our facilities meet the needs and expectations of our residents now and in the future.

As well as investing in new and improved facilities we've invested in improving our residents' care experience further with our new Kaitiaki (wellbeing assistant) role – of which we now have 70 around the country providing more one-to-one care for our residents and to support them both physically and emotionally.

We are also utilising health technology like PainChek™ to improve the quality of life of residents living with pain who are otherwise unable to verbalise their discomfort.

Bringing the best of life is at the heart of everything we do at Summerset and we continued to evolve our design and offering to give our residents meaningful and useful facilities. We also continued to test and invest in technology to enhance our residents' experience and lives, such as virtual reality to allow our residents to "travel" to far-flung concerns of the world, and our MultiBall interactive exerplay walls.

Sector challenges

Along with many of our competitors, Summerset continues to be very concerned about government underfunding in the wider aged care sector. Summerset is part of a group called Aged Care Matters that has spent much of the year lobbying government about the serious risks facing our sector.

More than 1,000 aged care beds closed in New Zealand in 2022 and with nowhere else to go some of our elderly will fall back on the public health system creating a further burden there.

It's estimated that in 40 years' time New Zealand will need over 12,000 more aged care nurses, 7,700 more dementia beds and 15,000 aged care beds, but the current funding model is pushing the sector backwards and there's no way we can currently see New Zealand meeting that demand.

In terms of our own services, we will not compromise on standards. Our residents expect a high-quality care option if they need it, and we will continue to invest in and provide our care centres for them, as they are an integral part of our offering for our target audience.

We can continue to provide care because we are a large business - our wider sector faces systemic challenges though.

Acknowledgements

As Chair I would like to formally acknowledge my gratitude to the Board for their commitment and governance over the past year, and it was a pleasure to be able to return to meeting in person again, making the most of opportunities to visit many of our sites when doing so.

We saw some changes throughout the year in our Board composition.

In November, the Board welcomed Andrea Scown as a Future Director – a programme introduced by the Institute of Directors which aims to develop New Zealand's next generation of directors and provide experience in large companies around the country. Andrea is CEO of Mitre 10 in New Zealand. Future Directors fully participate in all Board matters but do not have voting or decision rights.

Director and Audit & Risk Committee Chair Anne Urlwin announced her retirement from the Board effective 28 February. Throughout Anne's nine-year tenure Summerset had grown to be the second largest retirement village in New Zealand going from 18 to 39 villages, while more than doubling resident numbers, and expanding into Australia. I would like to acknowledge the contribution of Anne to the Board of Summerset and wish her well.

Following Anne's retirement, we were pleased to appoint Fiona Oliver to the Board and Chair of the Audit & Risk Committee. Fiona brings significant commercial and governance expertise to Summerset, and valuable insight and skills to our business.

I would also like to acknowledge and thank our residents for choosing Summerset, our staff for their professionalism and the high standard of care they provide, and to our shareholders for your continued support.

Looking ahead

We remain optimistic for the year ahead and that we are well prepared to deal with an uncertain economic period in 2023 while continuing to grow. We have a prudent capital structure, we can flex our build rate as demand dictates, we are focused on our cash generation, and we'll continue to closely monitor our costs during this period.

CEO's Address

Tena koutou katoa, good afternoon everyone.

While I will focus on the achievements of 2022, firstly I want to reflect on the significant weather events that hit us at the start of this year, particularly Cyclone Gabrielle.

These were unprecedented events and the way and speed at which our emergency response team deployed support to assist all our village residents and staff was humbling.

I'm particularly proud of our staff on the ground and the work they did, with the support of staff from around the country flown in to assist, to ensure our residents had access to everything they needed such as messages from loved ones, hot meals, drinking water, clean linen & clinical supplies.

Six of our villages – in Northland, Waikato and Hawke's Bay – were affected by power cuts, and our Te Awa village was evacuated as a precaution under the direction of Civil Defence when floodwaters began to rise. However, we were fortunate that none of our villages were flooded.

While this was of course a very tough and stressful time, it also showed the amazing community we have at our villages. Our main buildings and recreation centres were even busier than usual and a place where residents met to connect with one another or with family through pop up charging stations, and to share in a hot drink or meal.

Summerset established a \$250,000 Disaster Relief Fund to support Summerset staff affected by Cyclone Gabrielle. We used this fund to make contributions to staff who needed help getting back on their feet, managing the impact on their lives, and replacing items damaged by the storm. The fund was also to help our people with any financial burdens that may have impacted them after the cyclone. Some needed things in their house replaced while others needed help paying unexpected bills that popped up.

I will now turn to some of our 2022 highlights;

- A record 1,007 new and resale settlements of Occupation Rights
- A record year of construction with the delivery of 625 homes and 26 care beds, which was above guidance
- The addition of a further four village sites to our significant land bank, giving us the pipeline and the flexibility to grow in Australia and meet ongoing demand in New Zealand
- The completion of civils and earthworks at our first Australian village, and we also consented our second site
- Annual resident satisfaction survey results of 95% for those living independently, and 94% for our care centre residents

I will now take the opportunity to focus on some of the key areas of our business and performance during 2022.

The first area of 2022 is life in our villages

This was another challenging year for residents with the ongoing Covid-19 pandemic changing the landscape again with the arrival of the Omicron variant. We had extremely high rates of vaccination in all our villages, and we were well prepared, however the need to lock down parts of our villages and cancel communal activities at times was tough on residents and staff.

Again, our frontline staff were inspiring, caring for people in these challenging times, keeping them informed and helping them to connect with family and friends.

Influenza immunisation was prioritised for vulnerable groups, and we facilitated immunisation clinics at all villages for residents and staff.

Covid-19 also made us think and work differently to provide meaningful and engaging activities for our residents. We made virtual events and activities accessible online to residents throughout the country such as our Summerset Sessions programme which created some memorable and unique opportunities.

The 2nd area of 2022 is growth in our portfolio

Our design and consenting programme is very well positioned in both New Zealand and Australia. In New Zealand we have a very well diversified portfolio with 76% of our land bank consented.

In addition we also maintain very strong levels of product and geographic differentiation, building in over 18 locations across New Zealand, and in Australia.

As part of a strategic review of our building programme we made the decision in December to put our proposed Parnell village on hold. Construction costs have escalated significantly and with a declining property market we considered it prudent to pause in this environment.

We applied and were approved to use the fast-track process for our Half Moon Bay retirement village in east Auckland, which I'm pleased to say has just recently received consent approval.

We also completed construction of our Kenepuru village centre building. The centre is a further \$50 million investment in the village. Along with serviced apartments, and the care centre, it also has one of the country's most modern and innovative facilities for people living with dementia.

Many of us have direct family experiences with dementia. Statistics show there are currently 70,000 Kiwis living with dementia. That number is expected to reach 170,000 by 2050.

That's why similar offerings are set to be completed at Te Awa (Napier), Papamoa (Tauranga), and Bell Block (New Plymouth) later this year.

The 3rd area of 2022 is cost and procurement management

We worked hard to secure long-term contracts through our procurement programme, which gave us certainty during this time of inflation and price volatility.

Our planning and supplier relationships have meant that we've kept a tight lid on construction costs over the last year. This has led to a very healthy development margin through 2022 of 29.7%. However, many of our contracts are coming up for renewal this year and while we will work hard to get the very best price with our suppliers, we do expect to see our costs increase.

Over the coming year we expect to see our development margins return to the 20-25% range we've provided historically as market guidance.

We're also seeing costs such as rates and insurance increasing, like any other business. Unlike many of our competitors we don't fix our fees, so it means we have some ability to flex our fees to meet some of these costs while sticking to our commitment to residents to not increase our fees beyond the percentage increase to NZ Superannuation.

The 4th area of 2022 is demand

In 2022, we sold a record 1,007 occupation rights, and had record levels of interest in our developing and completed villages.

We are well placed with 88% of our portfolio priced below the median house price in their surrounding catchments. Additionally, in Auckland, our average 2 bedroom home remains at around 80% of the median residential house price in the city. Across other main centres in New Zealand this is approximately 89%, and for the rest of New Zealand where the majority of our resale villages are, this is around 95%.

This makes living in a Summerset village still highly affordable for the average retiree, and we deliberately have a cushion there to protect ourselves against market fluctuations.

The 5th area to discuss associated with 2022 is our people

Our people are an integral part of everything that Summerset offers and we are very proud of them and the work they do throughout our business.

We are committed to the protection and promotion of the health and wellbeing of all our staff. We surveyed our staff to build our knowledge around their own personal wellbeing and supplemented this with a series of Wellbeing improvement workshops.

We have promoted and delivered resilience training and mental health awareness to the majority of our frontline managers, through programmes including Mindfulness Month, Mental Health Awareness Week, the GoodYarn and MATES in Construction.

We remain committed to creating safe work environments for our people and ensuring that we are leaders in health and safety. During FY22 we started developing a new three-to-five-year strategy which will be completed and in place during FY23.

It is paramount our sites are safe, and to this end we continue to use SiteWise pre-qualification as well as quarterly external Site Safe audits to check our performance against best practice. All these measures are in addition to the extensive processes and practices we use to manage the Health & Safety of our residents and staff at our villages.

However, sadly we had the first death on one of our construction sites in November last year when one of our contractors died following an incident at our St Johns site. This, of course, was devastating for us as a company. WorkSafe NZ are completing their investigation into the incident and we have cooperated fully with them throughout this time. We will assess their report when it's completed and look at what, if anything, should be improved on our construction sites to prevent a future tragedy.

The last area associated with 2022 I would like to discuss is ESG Reporting

Summerset's ambition is to develop, build and manage more sustainable retirement villages in both New Zealand and Australia.

We've moved past the 'going green' phase to 'thinking green' right across the company. One of our biggest areas of focus has been waste reduction in our construction business. Our construction teams have worked extremely hard to identify where we can do better and have teamed up with Waste Management NZ to look at all aspects of our waste across our sites.

We have installed solar panels at our Nelson village and recently at Karaka with an intention to add more to our new regional main buildings, starting in Whangarei.

Looking forward

We have built a strong foundation and are well prepared to flex when tough market conditions necessitate it.

As at 31 December, our bank facility had undrawn capacity at \$493.5m which provides us with sufficient headroom to fund growth. We saw strong demand for our recent retail bond issue of \$175m which received \$50m of oversubscriptions.

A key protection mechanism for Summerset is that the value of our development assets exceeding the value of net debt by \$234.2m or 22%, meaning that if we sell down our stock, we are left with no core debt as a business.

While challenging labour supply issues continue to exist, product supply challenges have improved, and we remain on track for our 2023 build rate guidance of 625-675 new homes. Once our current villages under construction are completed, this is projected to generate over \$250m in excess cash after build costs for those villages are repaid.

ENDS

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ABOUT SUMMERSET

- Summerset is one of the leading operators and developers of retirement villages in New Zealand, with 38 villages completed or in development nationwide.
- In addition, Summerset has five proposed sites at Half Moon Bay (Auckland), Parnell (Auckland), Rotorua (Bay of Plenty), Kelvin Grove (Palmerston North), and Masterton (Wairarapa).
- Summerset also has seven properties in Victoria, Australia, bringing the total number of sites to 50.
- Summerset provides a range of living options and care services to more than 7,400 residents.