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Aveo Group's Retirement Strategy Accelerates as it Records Solid Half Year Result

Update on Aveo's transformation to a pure retirement group; Group records underlying profit of $19.2 million in HY14

Aveo Group (ASX:AOG), a leading owner, operator and manager of retirement communities across Australia, today released an update on its transformation to become a pure retirement group and also released its half year results for the six months ended 31 December 2013 (HY14).

Aveo Chief Executive Officer Geoff Grady said: "Aveo's strategy is underpinned by our commitment to grow with older Australians by inspiring greater living choices. As we have already seen, doing so as a pure retirement group will create long term, sustainable value for our securityholders."

Retirement strategy

Aveo Group will continue to pursue its strategy in FY14 and beyond to transform to a pure retirement group focused on increased levels of development and care. Non-Retirement asset sales are progressing well and are expected to reach the previous target of an 80/20 Retirement/Non-Retirement asset split by earlier than the end of FY16.

A key component of this strategy is to accelerate the development of its pipeline of new retirement units. As such, Aveo has set a target of delivering 200 new retirement units annually by FY16, extending to 500 new retirement units annually by FY18. Aveo has identified additional sites within its broader residential portfolio that are appropriate for new retirement development and which will assist in meeting these targets.

Geoff Grady said: "The experience and skillset required to meet these targets already exists within the broader Aveo Group and will involve a refinement of resources rather than creating significant new capabilities."

Aveo is also expected to exceed its target of offering care services to 75% of its retirement portfolio by the end of FY14, with now over 90% of villages owned by Aveo expected to have some form of care services being provided by this time. The combination of internal and external provision of care services in Aveo villages enables Aveo to focus on its existing core skill set while facilitating the creation of a continuum of care concept for residents as they move from independent living, to serviced apartments and then to higher care facilities.

Issued by Aveo Group (ASX:AOG) comprising Aveo Group Limited ABN 28 010 729 950 and Aveo Funds Management Limited ABN 17 089 800 082, AFSL No. 222273 as Responsible Entity for the Aveo Group Trust ARSN 099 648 754.

In terms of financial returns, Aveo has targeted the return on its retirement assets (excluding any future retirement asset revaluations after 30 June 2013) to improve to 6.5% by FY16 and to 8.0% by FY18.

The rationalisation of non-retirement assets is continuing at a strong pace. Aveo generated cash of just under $50 million in HY14 from non-retirement asset sales. The sales of 399 Lonsdale St, Melbourne, 50% of The Milton apartment project, Brisbane, the Yang land at Point Cook, the Hepher Rd industrial land in South-Western Sydney and the Aerial retail complex, Melbourne have all been announced. In addition, the Group's holdings in all its pre-existing non-retirement fractional interests, including the 50% MulphaFKP joint-venture interest, the small shareholding in PBD and the 50% interest in the Brookvale joint-venture, Sydney have all been sold. A number of other significant assets are in exclusive due diligence. Miller St and Luxe retail, both in Sydney are currently being marketed. The proceeds from such asset sales will continue to be used to reduce gearing and accelerate Aveo's retirement development pipeline.

Geoff Grady continued: "We are putting in place the culture, structures, systems and resources to drive the Group towards our strategic targets and to capture the unique opportunity that we have to transform to be the leading pure retirement group in Australia."

Solid profit recorded in HY14

Aveo Group also announced today that it recorded an underlying net profit after tax of $19.2 million[i] for HY14. While lower than the $23.6 million recorded in the previous corresponding period (pcp), those results were bolstered by the one-off settlements from the Aerial project in Melbourne. Importantly, Aveo's solid financial performance in HY14 was driven by a material lift in profit contribution from its retirement operations, with an increase in overall retirement sales volumes of 36% to the highest level in the last five comparable periods.

Aveo's statutory profit after tax in HY14 was $2.2 million[ii], significantly higher than the $28.5 million loss recorded in the pcp.

Financial Results HY14

- Statutory profit after tax of $2.2 million
- Statutory profit after tax (before transfer from foreign currency translation reserve) of $20.9 million
- Underlying profit after tax of $19.2 million[iii]
- Net tangible assets per stapled security $2.78
- Underlying earnings per stapled security of 5.0cps
- Gearing lowered to 20.4%

Aveo also emerged with a more stable and sustainable underlying financial position in HY14 with non-retirement asset sales generating cash amounting to just under $50 million and the completion of a $232 million capital raising in December 2013 reducing gearing to 20.4% from 31.5% at FY13.

Geoff Grady said: "Our financial result in HY14 was solid, especially given the strategic initiatives that we undertook. In particular, the strength in sales from our retirement business augers well for continued growth as our retirement strategy evolves."

Retirement

Aveo's Retirement business contributed $20.9 million to the Group's overall result in HY14, a 30% uplift from the pcp. This was driven by a 36% increase in overall sales volumes and also positively impacted by a shift in focus away from clearing low-margin Aveo-owned buyback stock, to a more business-as-usual sales mix in HY14.

Sales levels for the Retirement division in HY14 were the highest recorded over the five most recent comparable periods. Aveo is still maintaining solid levels of deposits on hand in addition to the strong sales momentum.

In terms of retirement development activity, construction is underway at Albany Creek, Durack, Island Point, Mingarra, as well as for RVG at Hunters Green and Rose Grange.

The identified pipeline at 30 June 2013 of circa 600 units has now been upgraded to circa 2,600 units and takes into account additional greenfield sites identified within the existing residential portfolio, as well as the redevelopment components of existing villages within the portfolio. Further acquisitions of appropriate development sites are also being targeted to ensure the retirement development pipeline becomes more diversified and meets its FY16 and FY18 targets.

Care and support services will be available at more than 90% of villages owned by Aveo by the end of FY14, well in excess of the previously announced target of 75%.

Non-Retirement

Residential Communities and Apartments

The Residential Communities and Apartments Division contributed a profit of $12.2 million to Aveo's HY14 result.

The divisional contribution reflects very strong land sales at all major land banks and from the MulphaFKP joint venture.

The Luxe development in Sydney remains on track to be completed in the second half of FY14 and The Milton, Brisbane, is on track for completion in FY16 with 244 pre-sales recorded thus far.

Commercial and Industrial

The Commercial and Industrial Division contributed profit of $3.7 million to Aveo's HY14 result.

All retail space at the Gasometer 1 property in Brisbane is now fully leased with 37% of office space also leased; further uptake is relatively subdued reflecting a slowdown in the Brisbane commercial leasing market. Strong sales volumes were recorded at Mackay.

The sale of Hepher Road, South-Western Sydney was completed in November 2013 and the sale of Lonsdale Street, Melbourne, was completed in October last year. The Miller Street property and Luxe retail, both in Sydney are currently being marketed.

Capital management

Aveo Group continued to strengthen its capital position in HY14. During the period, Aveo received strong support from security holders and raised capital of $232 million to reduce gearing and debt levels, with Group gearing now at 20.4%, in line with comparable listed retirement companies.

Also during the period, Aveo cancelled or amortised $125 million of existing facility limits and materially increased available facilities.

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[i] Underlying profit is the relevant metric to gauge Aveo's performance as it reflects the financial results generated from ongoing operating activities and is calculated in accordance with AICD/Finsia best-practice guidelines.

[ii] Included in the Statutory Result of $2.2m is a transfer of the foreign currency translation reserve relating to Aveo Group's indirect stake in Metlifecare that was sold during the period. An amount of $18.7m was transferred from reserves within equity to the statement of comprehensive income. This transfer did not affect net assets. The reserve accumulated over the life of the Metlifecare investment due to foreign exchange fluctuations. The statutory profit for the period would be $20.9m, had this reserve not been transferred to the statement of comprehensive income as required by Accounting standards.

[iii] Includes utilisation of $4.8m before tax, $3.4m after tax, of impairments raised at June 2013.