

## BABCOCK & BROWN COMMUNITIES



Babcock & Brown Communities Group comprising  
Babcock & Brown Communities Limited ABN 16 010 622 901 and  
Babcock & Brown Communities Investor Services Limited ACN 080 737 042  
as responsible entity of the Babcock & Brown Communities Trust ARSN 124 896 733  
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### ASX Release

30 December 2008

#### **BABCOCK & BROWN COMMUNITIES (BBC) – CHAIRMAN’S ADDRESS**

Please see attached the Chairman’s address and presentation being made today at the Annual General Meeting of Babcock & Brown Communities Group.

#### **ENDS**

#### **Further Information:**

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**About Babcock & Brown Communities Group**

Babcock & Brown Communities Group (**BBC**) is an integrated owner, operator and developer of senior living communities listed on ASX. BBC owns and manages a portfolio of 56 retirement villages and 29 aged care facilities across Australia and New Zealand comprising approximately 10,000 retirement units and 2,200 residential aged care beds. Within the retirement portfolio, BBC has full exposure to the deferred management fees of approximately 6,800 units and receives management fees in relation to the remaining units.

BBC's growth is supported by its development pipeline of approximately 2,200 retirement units and 344 aged care beds which is expected to be delivered over the next 6 years.

For further information please see our website: [www.bbcommunities.com](http://www.bbcommunities.com)

## CHAIRMAN'S ADDRESS

Babcock & Brown Communities

2008 Annual General Meeting

10:30am, 30 December 2008

Museum of Sydney - Auditorium, 37 Phillip Street

### Chairman's Address

On behalf of my fellow Directors, I would like to take the time to report on the events that have taken place over the last 12 months.

Since Babcock & Brown Communities commenced trading as a new stapled security on 10 August 2007, it has experienced challenging market conditions. This has been mainly due to the impact of the United States subprime mortgage crisis that affected global financial markets from late August 2007. The subprime fall-out resulted in much tighter credit markets and volatile equity markets for this financial period. Both the financial services and the listed property trust sectors have been significantly affected by these factors as the market has become increasingly concerned about complicated financial models, debt levels, rising funding costs and weaker property markets. These concerns impacted the price of BBC's securities.

ABN AMRO were appointed in June 2008 to conduct a strategic review for the purposes of determining options to reduce the gap between the underlying asset values of the business and BBC's current market trading prices. The findings and recommendations of this review were announced on 28 August 2008, whereby the following initiatives were agreed:

1. Price discovery process for the whole of BBC, and
2. Internalisation of the management agreement, debt reduction program and capital management initiatives.

On 1 October, following the price discovery process, BBC announced it had entered into an Implementation Agreement with Lend Lease Corporation Limited (“Lend Lease”) in relation to a proposed recapitalisation of BBC and an in principle agreement to acquire the Retirement by Design business from Lend Lease. As a result of the proposal and the subsequent amendments made to that proposal on 24 November, Lend Lease would inject \$195 million cash into BBC and become BBC’s strategic securityholder with an approximate interest of 43.2%. Lend Lease also separately entered into agreements with Babcock & Brown to acquire the BBC management rights and B&B’s interest in BBC.

The Lend Lease Proposal was the most attractive proposal resulting from the price discovery process. It gives BBC additional capital flexibility in order to maintain its current operations and position itself for future growth.

The implementation of the first stage of the Lend Lease Proposal was announced on 27 November, at which time Lend Lease assumed the management rights of BBC. The implementation of the second stage of the Lend Lease Proposal is the subject of a number of the resolutions before us today.

If the resolutions before us today are passed, the effects will be that:

- Lend Lease will inject \$195 million cash into BBC through the issue of 283.3 million securities at \$0.60 cents each and 100 million convertible notes at \$0.25 each;
- Lend Lease will acquire Babcock & Brown’s stapled securities in BBC for \$0.29 cents each;
- BBC will acquire eight of the Retirement By Design assets / entities from Lend Lease;
- BBC will change its name to Lend Lease Primelife, to reflect that Babcock & Brown are no longer involved in the management of BBC;
- The responsible entity of Babcock & Brown Communities Trust will be changed to Lend Lease Villages Responsible Entity Pty Ltd (a wholly owned subsidiary of Lend Lease); and
- Some changes will be made to the fee structure under the management agreements.

In the event that the resolutions are not passed, under the terms of the Lend Lease Proposal, Lend Lease may choose to subscribe for stapled securities and subordinated notes and purchase half of B&B's interest in BBC, which would give Lend Lease a 17.8% holding in BBC.

Each of the Independent Directors, including myself, believes that the Lend lease Proposal provides substantial benefits to BBC, including:

- the opportunity to materially reduce its net gearing levels and provide the financial flexibility required to maintain current operations and position itself for future growth;
- a long term strategic investor, who has a strong balance sheet and provides stability to the securityholder register;
- increased exposure to the Australian senior living industry
- Lend Lease's development expertise and support for BBC's development pipeline from an operational and financial perspective; and
- Providing securityholders with the ability to maintain an investment in a listed vehicle that is well capitalised and well positioned for future industry consolidation and growth.

Accordingly, each of the Independent Directors recommends that Securityholders vote in favour of the Lend Lease Proposal.

It is anticipated that the challenging and uncertain economic conditions will continue through 2009, with the ongoing impact likely to be felt across all sectors including the Australian property market. The implementation of the Lend Lease Proposal will allow the business to be well placed, with a sound balance sheet and strong cash position, as well as through leveraging the relationship with Lend Lease, to take advantage of any growth opportunities that such economic conditions often present.

In closing, on behalf of the Board I would like to thank the staff and management for their hard work and dedication during what has been a very challenging period for BBC.

We look forward to your continuing support in the coming year and a solid performance in 2009.

# Babcock & Brown Communities Group

## **Annual General Meeting**

**30 December 2008**



# BBC DIRECTORS

**Judith Sloan** Chairman, Independent Director

**John Martin** Non-Executive Director

**Andrew Love** Independent Director

**Graeme Martin** Independent Director



# **Chairman's Address**

## Judith Sloan



# **FY08 in Review**

## John Martin

30 December 2008

# AGENDA

- Highlights
- Results Summary
- Business Unit Highlights
- Update since Balance Date
- Strategy & Priorities
- Summary & Outlook



# HIGHLIGHTS

- NPAT of \$41.1m – 19% increase on PDS forecast
- EBITDA of \$109.1m – 45% increase to PDS forecast
- Revenue of \$263.6m including \$61.5m revaluation
- Active capital management process to reduce debt
- NAV of 94 cents and NTA of 57 cents per security

# RESULTS SUMMARY

	FY08 <sup>1</sup>	PDS Forecast June '07 <sup>2</sup>	FY07
EBITDA	\$109.1m	\$71.5m	\$21.7m
NPAT	\$41m	\$34.5m	\$(2)m
Distribution per security	6.3 cents	8.4 cents	nil
Earnings per security	6.71 cents	-	1.69 cents
NAV per security	94 cents	-	63 cents
NTA per security	57 cents	-	58 cents
Gearing <sup>3</sup>	39%	-	-

<sup>1</sup>Results included acquisitions that were not in PDS forecast

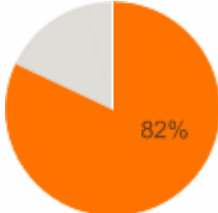
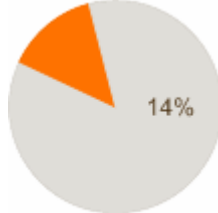

<sup>2</sup>As restated in November to reflect the timing of the completion of the Restructure

<sup>3</sup>Debt as % of Adjusted Gross Assets

**Good result from core retirement business in an increasingly difficult market**



# COMPOSITION OF EARNINGS

	Retirement Living	Development	Aged Care
	Ownership & management of retirement villages	Development of retirement villages and aged care facilities	Ownership & management of aged care facilities
Operating Revenue	\$157.2m	\$27.2m	\$77.3m
EBITDA <sup>1</sup>	\$111.7m	\$19.2m	\$5.8m
Proportion of EBITDA from Operating Businesses	 ↑12%	 ↓-20%	 ↑9%
Regional Business Operations	NSW, VIC, WA, QLD, SA, NZ	NSW, VIC, WA, QLD, SA	NSW, VIC, QLD, SA

**80% of EBITDA from core retirement business with strong and secure aged care cashflows**

<sup>1</sup>Before unallocated Corporate EBITDA of \$(27)m and corporate eliminations of \$1.9m

# RETIREMENT LIVING

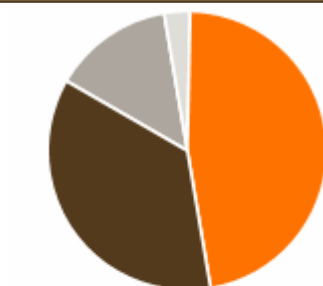
## FY08 Highlights

Revenue	\$157.2m
EBITDA	\$111.7m
Cash DMF	\$33.1m
Revaluations	\$61.5m
Resales <sup>1</sup>	425
Portfolio Turnover	6.3%

## Portfolio Summary

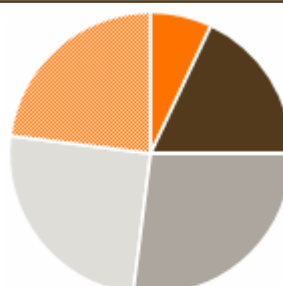
Number of villages	56
Number of units	9,880
Ave. age of villages	11.2 yrs
Occupancy	98%
Ave. age of current residents	79.5yrs

## Ownership Structure



■ 47% Fully Owned  
■ 36% Under Management  
■ 14% Leased  
■ 3% Profit Share

## Maturity Profile



■ 7% 1 to 2 years  
■ 18% 2 to 5 years  
■ 27% 5 to 10 years  
■ 25% 10 to 20 years  
■ 23% Over 20 years

## Geographic Diversification



■ 36% QLD  
■ 19% VIC  
■ 19% NSW  
■ 14% WA  
■ 10% NZ  
■ 3% SA

<sup>1</sup>A further 125 resales were achieved in portfolio managed for PTN (3,530 ILUs) – 12% of DMF & \$520pa per unit

# RETIREMENT LIVING - VALUATIONS

- Net revaluation increment - \$61.5m
  - Price growth supported by buy-back and refurbishment program
  - Uplift in resident contracts for improved future earnings
- Underlying property growth varied by state
  - Weighted average capital growth rate of 5.2% for ILUs and 2.8% for SAs based on resales data
- Valuation assumptions remain conservative
  - Weighted average discount rate of 12.1%
  - Weighted average long term growth rate of 4.5% pa
- Investment property portfolio
  - 95% of investment property by value subject to independent valuations in FY08

**Revaluations driven by price growth and upgrading resident contracts**

# DEVELOPMENT

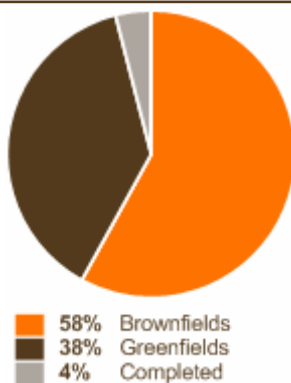
## FY08 Highlights

Revenue	\$27.2m
EBITDA	\$19.2m
Settlements	250
Gross proceeds	\$94.1m

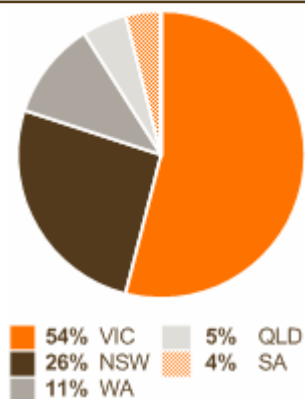
## Development Pipeline

Total number of units	2,225
6 x completed projects	93
10 x brownfield developments	1,297
6 x greenfield developments	835
Average sale price	\$414,000
Gross sale value	\$922m

Composition of Pipeline



Location of Brownfields sites



Location of Greenfield sites





# DEVELOPMENT

- Performance below expectations in difficult market conditions
  - 250 settlements across 13 sites
  - Gross proceeds of \$94.1m and EBITDA of \$19.2m
  - Development margins of approximately 18%
  - Expansion of 8 villages with 201 new villas completed
  - 234 units in inventory across 15 sites – 28% subject to sale or reservation
- Results impacted by slowdown in residential property market, longer lead times to settlement due to difficulties in incoming resident's ability to sell their home
- Focus on cash
  - Closely matching supply to demand by controlling inventory levels and the development pipeline
  - Target to reduce inventory levels by 50% in FY09
  - Reduced delivery speed of development pipeline at selected brownfield sites and all greenfield sites
  - Divestments of underperforming or surplus sites

# AGED CARE

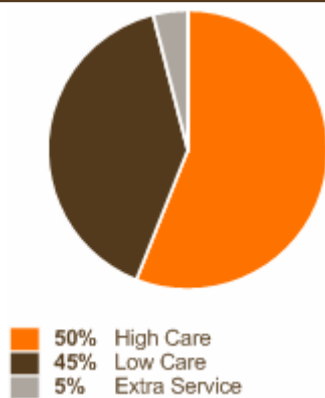
## FY08 Highlights

Revenue	\$77.3m
EBITDAR	\$12.4m
EBITDA	\$5.8m
Operating profit per bed	\$6,711
Net accommodation bond cashflow	\$14.2m

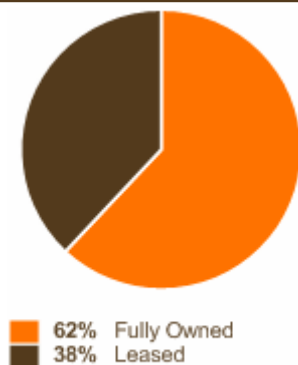
## Portfolio Summary

Number of facilities	29
Number of beds	2,213
Beds under development	347
Portfolio occupancy (excluding ramp up facilities)	94.5%
Ave. age of current residents	84 yrs

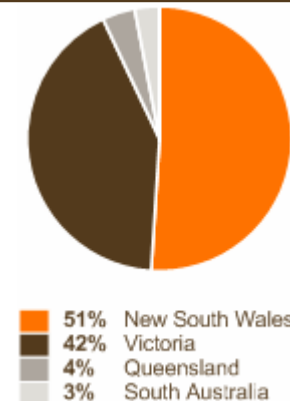
Level of Care



Ownership Structure



Geographic Diversification



# AGED CARE

- Performance in line with expectations
  - Occupancy 94.5% excluding ramp-up facilities
  - Salary and wages as a % of revenue is 67%
- 3 year Accreditation at all BBC facilities, with no non compliance issues
  - 6 sites passed accreditation during FY2008
  - A further 3 sites have passed accreditation during July 08
- New Aged Care Funding Instrument (ACFI) commenced on 20 March 2008 replacing the Resident Care Subsidy (RCS) as determined by the government
- Construction and opening
  - Princeton View (125 beds) in East Brighton, Victoria
  - Additional 24 beds at Riddell Gardens, Sunbury, Victoria
  - Additional 42 bed wing at Coastal Waters, NSW
- Conform Integration
  - Progressing well

**Improvement in underlying operations**

# KEY EVENTS SINCE BALANCE DATE

- Strategic review initiated by BBC directors in June 2008
- Following due diligence and price discovery process, the Lend Lease Proposal was announced on 1 October 2008
- PTN 40% proportional scrip bid announced on 4 September 2008 and closed on 28 November 2008. Increased stake from 0.4% to 1.57%
- Internalisation Agreements terminated and management rights transferred to Lend Lease on 28 November 2008
- Notice of Meeting (with Independent Expert's Report) to approve Lend lease Proposal sent to securityholders on 28 November 2008
- Implementation of second stage of Lend Lease Proposal following approval at AGM



# STRATEGY & PRIORITIES

- Tight Cash Flow & Capital Management
- Extract value from integrated asset base and management platform
- Leverage new relationship with Lend Lease
- Retirement Living
  - Continue with refurbishment and buy-back program
  - Upgrade resident contracts where appropriate
  - Focus on converting turnovers into sales
  - Integrate Retirement by Design
- Development
  - Focus on converting reservations
  - Optimize BBC's investment by delivering community facilities at new developments
  - Introduce Product Development & Asset Management programs
  - Tailor delivery program to demand
- Aged Care
  - Extract value from integration of Conform acquisition
  - Satisfactory completion of 2009 Compliance Inspections
  - Review of Aged Care business to optimise ownership structure

# SUMMARY & OUTLOOK

- The Lend Lease Proposal results in:
  - Sound balance sheet & cash position;
  - Experienced team with a Pure Play focus
- Defensive Asset class in softer residential property market:
  - Growing demand with ageing population;
  - Limited supply
- Accelerated consolidation of the sector in 2009
- Strategy development completed by March 2009
  - Earnings outlook
  - Distributions framework
- Lend Lease as a significant shareholder has its interests aligned
- BBC is well placed to respond to challenges in the market, the economy and financial markets in 2009

**Questions?**