

28 August 2019

## FY19 Results and Update on Brookfield Transaction

Australia's leading owner, operator and manager of retirement communities, Aveo Group (ASX: AOG), today released its financial results for the year ended 30 June 2019 (FY19).

### Financial results

- Statutory loss after tax of \$213.4 million;
- Underlying profit after tax and non-controlling interest of \$50.1 million;
- Earnings per stapled security on underlying profit after tax and non-controlling interest of 8.7 cents;
- Funds from operations at \$44.4 million; and
- Net tangible assets per stapled security of \$3.50.

Aveo's statutory result was impacted by a \$259.3 million decrease (after tax and non-controlling interest), largely due to the investment property valuation of the Retirement portfolio. This was on the back of a review of the retirement portfolio's unit pricing and the adoption of lower property price growth assumptions used in determining the value of the portfolio, reflecting the downturn in the broader residential property market across Australia over the past two years. This resulted in a decrease in Aveo's net tangible assets per security from \$3.92 as at 30 June 2018 to \$3.50 as at 30 June 2019.

Aveo Group Chief Executive Officer, Geoff Grady said: "Our retirement business continued to encounter a tough trading environment in FY19 with sustained weakness across residential property markets in Australia. This weakness adversely impacted settlements achieved on our retirement properties as incoming residents were delayed in selling their homes to complete settlement.

"Regardless, the quality of our portfolio and resilience of our business showed through in FY19 with demand for our retirement living product remaining strong with Aveo's written sales volumes of 1,140 in FY19 comparing well to prior years. This demand has led to a substantial increase in the number of deposits on hand, from 89 at 30 June 2018 to 239 at 30 June 2019.

"A key metric looking forward relates to the ratio of seen appointments to written sales. This ratio continued to strengthen throughout FY19 with our written conversion rates at an all-time high of ~29% in the fourth quarter of the period, compared to less than 17% a year earlier.

"Most importantly, the satisfaction and welfare of our residents and the quality of the retirement offering that we deliver to them remains our core business focus.

Aveo's vision is to be Australia's leading and most innovative seniors living provider. Our mission is to honour and serve our residents through Kindness, Care and Respect. Kindness, Care and Respect are our corporate values.

Aveo is a leading and trusted owner, operator and manager of retirement communities across Australia. Aveo's philosophy is underpinned by a commitment to grow with older Australians by inspiring greater living choices. We currently and proudly do so for 13,000 residents in 94 retirement communities across Australia.

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.

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“The latest results from the July resident satisfaction pulse survey show that resident satisfaction and our net promoter score is continuing to increase. In line with our commitment to our residents, we delivered over 1 million hours of care across our residential aged care homes and home care communities and delivered more than 1.4 million meals to residents across 65 sites.”

Aveo also undertook a number of underlying portfolio value enhancements and management initiatives during the period, including the rollout of Aveo Way contracts, new developments, and the conversion of villages to the Freedom Aged Care model. These initiatives added \$180m of value to the investment property valuation in FY19.

In addition, Aveo delivered on time and on budget all 419 major development units forecast for FY19, reinforcing the Group’s track record in delivering on major developments, with 1,437 new units delivered in the past five years.

### **Retirement**

Total Retirement revenue decreased by 23% in FY19 to \$462.0 million, on the back of lower resales and lower sales volumes of minor development stock. Aveo recorded total Retirement settlement volumes of 901 units, down 7% from FY18. Major development deliveries decreased by 17% compared to FY18, with 419 new units delivered at ten sites across Queensland, New South Wales, Victoria and Tasmania.

In the Retirement Established Business, total revenue of \$168.5m represents a 3% increase on FY18. The written sales rate of 7.8% outperformed FY18’s rate of 6.6%. Time to settlement rates have increased, leading to a 125% increase in deposits on hand compared to FY18. The realised average transaction price point for DMF/CG<sup>1</sup> generating transactions remained steady at \$382,000 per transaction, and the DMF/CG margin percentage remained flat relative to FY18.

Aveo Way contracts continue to be adopted throughout the portfolio, which will contribute to margin growth as those residents sell their units. An additional 473 units are now on Aveo Way contracts, compared to FY18. Approximately 24% of Aveo’s total retirement portfolio is now under the Aveo Way contract regime.

The decrease in the Retirement Development contribution was due to a decrease in major developments units delivered at a lower average value and a lower sales volume of minor development Freedom conversion and original unoccupied units. The average transaction price point for minor developments increased by 5% to \$533,000 per unit, which reflects the demand in Aveo’s Freedom care services. Major development margins exceed the target range of 16% - 20% and minor development margins are at the top of the target range of 35% - 40%.

Revenue for Care and Support Services increased, offset by upfront costs and depreciation associated with the roll out of the new Newstead aged care facility. Aveo’s care offering has been complemented by the start of the Aveo Care at Home business, expanding the availability of traditional home care services to all Aveo communities and providing a referral network and additional sales channel.

### **Non-Retirement**

Non-Retirement assets continue to be sold down in line with the Group’s strategy. The change in profit contribution primarily related to lower land lot sales.

### **Capital management**

Reported gearing at 21.3% is slightly above Aveo’s preferred range of 10% - 20%.

<sup>1</sup> Deferred management fees and/or capital gains

## **Outlook**

Aveo consolidated its position as the market leader in retirement living in Australia in FY19 and will continue to focus on strategies to improve and innovate to provide greater living choices for older Australians. This will be achieved by:

- Continuing to roll out Aveo Way contracts to provide greater choice and certainty to residents;
- Integrating care through the Freedom Aged Care model, co-locating Aged Care facilities and Aveo Care at Home's offering; and
- Delivering high quality development projects.

Aveo's management is committed to delivering on value-creating initiatives in FY20:

- Achieving settlements from the increased level of deposits in FY19;
- Delivering 62 major development and 125 minor development units on time and within budget; and
- Continuing to prudently manage capital, especially while the residential property market in Australia remains challenged.

A full year distribution of 4.5 cents per security will be paid on 30 September 2019.

## **Strategic review**

On 14 August 2019, the Group announced that it had entered into a Scheme Implementation Deed with entities controlled by Brookfield Property Group.

Under the Scheme Implementation Deed, Hydra RL BidCo Pty Ltd, an entity controlled by Brookfield Property Group, proposes to acquire 100% of the outstanding securities of Aveo by way of a trust scheme and a company scheme of arrangement for total cash consideration representing \$2.195 per security. This consideration is based on the cash consideration and includes the final FY19 distribution of 4.5 cents per security, expected to be paid on 30 September 2019. The schemes are subject to Aveo securityholder approval by:

- 75% by number of securities voted; and
- 50% by number of securityholders who vote.

The transaction is subject to limited conditions, but is not subject to financing or due diligence. If the transaction were to complete, Aveo would delist from the Australian Securities Exchange.

In exchange for their securities, Aveo securityholders would be entitled to receive one of:

- Total cash consideration of \$2.195 per security (inclusive of the FY19 final distribution of 4.5 cents per security); or
- A conditional scrip consideration alternative, providing current Aveo securityholders with the potential to participate in an unlisted equity vehicle which would give them future exposure to Aveo.

Based on the cash consideration, the Aveo Board of Directors unanimously recommends that Aveo securityholders vote in favour of the schemes in the absence of a superior proposal, and subject to the Independent Expert concluding (and continuing to conclude) that the schemes are in the best interest of Aveo securityholders.

The Aveo Board makes no recommendation in relation to the scrip consideration. Aveo securityholders should read the Scheme Booklet before considering making any election under the Schemes.

The Aveo Directors intend to vote any Aveo securities held by them at the time of the scheme meetings in favour of the schemes, subject to the following matters:

- the absence of a superior proposal;
- the Independent Expert concluding (and continuing to conclude) that the schemes are in the best interests of Aveo securityholders; and
- Mr Seng Huang Lee and Mr Eric Lee, who are nominee directors of Mulpha group on the Board of Aveo, make no representation as to the voting intentions of the Mulpha subsidiaries which hold stapled securities in Aveo, since Mulpha International Bhd is a listed entity on Bursa Malaysia and its board will need to consider the Scheme Booklet, once it is available, in order to make a decision. However, Messrs Lee and Lee have confirmed to the Board of Aveo that, in respect of Mulpha's consideration of the Transaction, they intend to recommend and support a decision that Mulpha vote in favour of the schemes. Should Mulpha inform Aveo of its voting or consideration election intentions, Aveo will update the market accordingly.

A full overview of the terms of the schemes will be provided in a Scheme Booklet (including an Independent Expert's Report), which is intended to be distributed to Aveo securityholders in October 2019. The scheme meeting is expected to be held in November 2019, and if approved, the schemes are expected to be implemented this calendar year.

Securityholders should read the Scheme Booklet once it is available and seek independent advice as necessary.

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