

Oceania Healthcare 2020 AGM

Responses to shareholder questions

Question 1: What progress has the Board made towards becoming a Living Wage employer this year?

Our staff are generally registered nurses, healthcare assistants and housekeeping staff. The base rates for our registered nurses are now equal to or above the base rates in the DHBs and starting rates are now close to \$30 an hour, which is above the living wage. The pay rates for our healthcare assistants are set by the equal pay settlement that was achieved in early 2017 and are already above the living wage. The pay rates for our housekeeping staff depend on their level of qualification, but ranges from just above the minimum wage through to effectively what the living wage is now.

Question 2: Can you tell us more about the aged care funding claim and what metric that might mean for Oceania should the claim be successful?

Work was undertaken by the aged care industry as a whole in May 2020 to determine the overall costs incurred by the industry during the COVID-19 outbreak (including costs for additional PPE and additional staffing). Oceania Healthcare's CFO, Brent Pattison, was at the forefront of collating that data from industry participants, submitting it to the Ministry of Health and meeting with the Ministry of Health (via Microsoft Teams) to validate the claim.

Although the total amount claimed by the industry was over \$80m, the Ministry only paid \$26m to the industry. This \$26m was allocated to operators based on their bed numbers, so Oceania Healthcare received approximately \$2m.

Industry reports over the years have shown that the sector continues to be underfunded. Oceania Healthcare, and the industry generally, continue to lobby for increases in aged care funding.

Question 3: The staff numbers have increased by 200 over 2019. Resident numbers have only increased by 100. Where are the extra staff being deployed?

When Oceania Healthcare opens a new aged care centre there is a base level of staff required, even for one resident. Every aged care centre has a Manager, a Clinical Manager, nursing staff, healthcare assistants and cleaning staff so there is a front-loading of staff before residents even move in. This has been the main driver of the increase in staff numbers over the year.

Question 4: Noting the increased focus on premium units and care beds with a resident funded focus does this mean that Oceania will become the leader when it comes to staff pay and conditions?

Oceania Healthcare is already one of the highest paying employers in the sector, particularly with regard to registered nurses. Oceania Healthcare's base rates for registered nurses, based on the collective employment agreements that are publicly available, are at the very top end of the sector.

Unfortunately, Oceania Healthcare, and other industry participants, are not adequately funded to meet DHB penal rates. The sector continues to lobby for increases to aged care funding so that higher pay rates can be provided to staff and the sector has been specifically lobbying for funding to pay registered nurses at rates equivalent to their counterparts in the DHBs during this in the period leading up to the 17 October 2020 General Election. Oceania Healthcare's General Manager Nursing and Clinical Strategy, Dr Frances Hughes, has been involved with this lobbying over the last few months.

Question 5: What is the motivation behind the "Handled with Care" campaign?

One of the key differentiating features of Oceania Healthcare is that we are a care-focused business. Our aged care strategy, including our care suite strategy, is our primary focus and it is not an adjunct to another part of our business. We genuinely believe that we deliver care better than other providers do, with kindness, compassion and respect and we live by our values. The considerable investment that we have made in our clinical team in recent times is testament to this.

The "Handled with Care" campaign built on Oceania Healthcare being a care-focused business and was also a reference to the way that we handled the risks associated with COVID-19. As part of the COVID-19 response plan, Oceania Healthcare had a real focus on the emotional and physical wellbeing of its residents and staff. This extended to helping staff out by providing babysitting services for their children so that staff could continue to come to work and care for our residents. All of these factors were the motivation behind the "Handled with Care" campaign.

Question 6: Ms Coutts is chair of three large companies and has a number of other governance roles. At a time when many chairs are commenting on their extra workload, how can we have an assurance that she is committing sufficient time and energy to Oceania?

At the Annual Meeting of Shareholders on 24 September 2020, Mrs Coutts provided an assurance to shareholders that she has the capacity to undertake her role. She noted that she has four large roles but that she has either ceased, or is in the process of ceasing, her other governance roles. She also noted that she has a very good support network which enables her to make herself available for these roles.

Mrs Coutts added that she has worked very hard all her life and is well organised which means that she can undertake these roles.

Question 7: I understand that originally the Meadowbank Retirement Village was going to incorporate a dementia ward. Is this still going to proceed and if so when will construction commence and when is the estimated completion date?

Oceania Healthcare intends to construct a dementia building at Meadowbank. We have obtained a resource consent for this and are currently finalising our plans and feasibility analysis.

Question 8: I realise that the implementation of Oceania's strategy to move from mainly standard beds to premium beds has a lot of front-loaded costs. I note however that this impact is often poorly understood by shareholders (which well might explain the poor performance of the OCA shares compared to its competitors). Does the Board plan to find a better way to explain this story?

We are very conscious of the fact that our earnings have been "lumpy" over the previous three years, particularly on the care side of the business. This is largely as a result of the brownfields redevelopment strategy requiring operational disruption in the short term as we have decommissioned beds and undertaken construction.

As we have now got beyond most of that disruption, particularly in our premium sites around the country, we expect aged care earnings to increase moving forward. As care suites are sold and generate upfront development margins, as well as longer term trail income from the deferred management fee on the ORA, which is where the higher quality earnings in the business come from, we expect there will be more linear growth in our earnings.

Question 9: Based on your presentation, am I correct that The Sands has 10 units unsold and 3 care suites vacant?

This is correct as at 24 September 2020.

Question 10: Comparing Oceania's books with its competitors, it feels that it takes significantly more effort to understand the OCA financial statements than e.g. RYM's or SUM's. I believe that this problem might as well contribute to the lagging OCA share price compared to its competitors. Is the Board aware of this problem and are they planning to improve the presentation of the financials?

A key contributor to this is the fact that we have a significantly greater proportion of care rooms, and in particular care suites, than our listed peers. Given the accounting treatment of care assets as property, plant and equipment, valuation movements are

treated differently for accounting purposes than investment property – please refer to presentations in previous financial years where we outline this difference.

We are aware of the inherent complexities of our financial statements, and whilst the accounting nuances are unavoidable, for our recent FY2020 results released in July 2020 we endeavoured to simplify the way we present our results to the market and have received positive feedback in response to this. We also note that our brownfield development strategy has been a source of disruption to our financial statements over the previous three years, however we expect a more linear growth trend to our aged care earnings now as we've got beyond the majority of that disruption, particularly in our premium sites around the country. We expect the combination of these two factors to improve receptiveness of the market to our financial performance.

Question 11: I understand there's a longer-term strategy at play here but watching the share price go nowhere – while the industry is performing well overall – is causing frustration for a number of shareholders. Looking back across the past 12 months, the OCA share price hasn't shown any gain (\$1.03 as I write this, exactly the same price as this day a year ago). Meanwhile, across the same time period, Ryman is up 7%, Arvida up 15%, Summerset up 33.5% and Metlifecare up 34%. To what do you attribute the lack of share price appreciation?

Over the previous three years, Oceania Healthcare has undertaken a transformation through its brownfield development strategy, which has caused significant disruption to the financial performance of the business. We will start to see aged care earnings increase now as we've got beyond the majority of that disruption, particularly in our premium sites around the country. As we sell down our care suites and generate upfront development margins as well as longer term trail income from the deferred management fee on the ORA,, which is where the higher quality earnings in the business come from, it is expected that there will be far more linear growth in our earnings.

Question 12: Paying a non-imputed dividend is quite tax inefficient for shareholders. We basically pay in this case income tax for a return of our capital. Did the board consider alternative options like e.g. share buyback instead?

Distribution to shareholders by way of dividends is standard practice for both the market and the industry. Alternative distribution options such as share buybacks carry significantly more complexity and cost for issuers than dividends. Furthermore, share buybacks of less than 15% (or 10% with IRD approval) of a company's market capitalisation (or any share buybacks considered to be "in lieu of a dividend") are treated as dividends for tax purposes, so this method would be ineffective for a distribution of the size of a dividend payment.