



ANNUAL MEETING – CEO’S ADDRESS 24 SEPTEMBER 2020

A warm welcome to everyone here today.

Over the last three months of the financial year we navigated a most extraordinary period managing the challenges of the COVID-19 pandemic in New Zealand. The pandemic presented significant risks for Oceania Healthcare, both in terms of the wellbeing of our residents and staff as well as financially, with increased costs in keeping our residents and staff safe and – as Liz said - effectively not being able to sell a retirement village unit during the final quarter of the financial year. Of course we have continued to manage the risk of COVID-19 in the period following our balance date with the most recent outbreak in Auckland once again meaning that our aged care centres and retirement villages were closed to visitors for two weeks in August.

Financial overview

First, I will take you through the financial results for the year ended 31 May 2020. Despite the challenges over the final quarter, we have delivered \$63.5m of underlying earnings before interest, tax, depreciation and amortisation that is in-line with the prior corresponding period, despite the Government lockdown restricting sales of retirement village units in the final quarter of the financial year and the additional costs that we have incurred in managing the risk of COVID-19 throughout the business.

Underlying net profit after tax of \$42.9m was lower than the prior corresponding period due to higher interest costs that we incurred to fund our development activity over the year and higher depreciation charges from completed developments. Over the past 18 months we have completed four new aged care centres, each of which is classified as property, plant and equipment in our financial statements and hence attracts a depreciation charge once complete.

Operating cashflow increased to \$99.4m as a result of strong sale proceeds received from the sale of developments that we completed in the previous financial year – predominantly The Sands in Browns Bay, Auckland, and Meadowbank Stage 4, also in Auckland.

Total assets increased to \$1.5 billion which reflects the capital expenditure that we have invested in our redevelopment programme over the year and completion of new aged care centres. This increase in asset value is despite changes to CBRE’s valuation assumptions that led to a decrease in the value of our existing investment property assets. The property portfolio was independently valued by CBRE as at 30 April 2020, a time that you may recall when the country had only just exited the Level Four restrictions and New Zealand was still subject to stringent Level Three restrictions. Accordingly, CBRE reassessed a number of their assumptions to reflect lower property price growth rates – in fact negative rates in the first year - higher discount rates and increased discounts on unsold stock.

Despite the CBRE assumptions with regards negative property price movement, to date we have not experienced any decline in prices for the sales that we have achieved since the lockdown restrictions were lifted in the middle of May.

As at 31 May 2020, Oceania Healthcare had current drawn debt of \$326.7m and \$17.6m of cash, representing \$110.9m of undrawn net debt headroom. This includes the additional debt facility of \$70m that was put in place in early April for a period of 18 months with our existing bank lenders to provide even more headroom given the uncertainties in the near term economic outlook at the time.

As we informed shareholders at our interim results announcement in January and full year results announcement in July, we intended to explore a domestic retail bond issue in 2020 to provide diversity of funding and tenor and help facilitate Oceania Healthcare’s future growth. We were in the final stages

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of preparing for this bond issue in March before COVID-19 caused significant volatility in global financial markets. We therefore paused that process and are now planning to proceed with the bond issue shortly, subject to market conditions. This remains a priority for FY2021.

I would now like to turn to our aged care strategy

One of Oceania Healthcare's strengths is our aged care strategy. As we have said before, our aged care business is "needs-based", meaning that residents and their families make a decision to move into an aged care centre or buy a care suite when the resident "needs" rest home or hospital level care rather than for lifestyle reasons.

Our aged care strategy is to redevelop our portfolio of well-located sites into new aged care centres that generate higher, resident-funded, premium revenue through the deferred management fees generated on occupation right agreements that we sell over care suites. At the time of our IPO, 29% of the portfolio was classified as premium (including care suites sold under ORA and beds for which we receive a daily premium accommodation charge). Over the last three years we have increased this to 44% of the portfolio and, as we build out the remainder of our pipeline, this proportion will increase to 69% with the number of premium care beds more than doubling from current levels.

Our new aged care centres at Meadowbank, The Sands, The BayView and Awatere are now starting to mature in their operations and their beds are generating significantly higher returns than the older beds they replaced. Despite the disruption to these sites as redevelopment took place, our aged care earnings are accordingly now at a point of "inflection" and will increase going forward as we continue to execute our strategy.

Overall, aged care occupancy was 93.7% over the year ended 31 May 2020, compared to the prior corresponding period occupancy of 93.2%.

Now I would like to describe the impact of COVID-19 on the business and our response to it.

As we informed shareholders in mid-March, we were well-prepared to manage the risk of a COVID-19 outbreak at Oceania Healthcare and were already engaged with the Ministry of Health at the time to ensure that we had their support and access to DHB supplies and resources as required. The Ministry acknowledged early on the important part that aged residential care plays in the national healthcare system providing residents with a safe living environment and reducing demand for public hospitals.

We look after over 3,600 residents in our aged care business and each of these residents were of heightened vulnerability to COVID-19, hence there is no doubt that the pandemic presented a high risk to their health. As an essential service, we continued to operate during the Government lockdown with stable occupancy levels and regular cashflow received from both the Government funded daily care fee as well as additional resident-funded revenue. We also continued to take applications on our care suites and had residents settle and move into care suites during the lockdown period. None of Oceania Healthcare's residents living in its aged care centres or retirement villages have contracted COVID-19 to date and staff were also well protected throughout the pandemic. A number of actions were implemented early on to reduce this risk, including restricting visitor access to sites, taking declarations from staff and monitoring travel, as well as enhancing infection control training and ensuring clear and regular communication to staff, residents and their families. Additional Government funding was received in late May which partially offset the increased costs to manage the pandemic risk.

Aged care centres and retirement villages were a wonderful place for elderly people to live during Alert Levels Three and Four as our residents were very well looked after. Our team came up with many innovative ways to keep activities going and to provide service and attention to our residents. One example of this was our team at Meadowbank who coordinated morning exercise classes from the courtyard with loudhailers and music while our residents participated enthusiastically from each of their

apartment balconies. These initiatives went a long way towards overcoming social isolation and loneliness that other elderly people living in the community may have experienced during the lockdown.

In our retirement village business, as Liz mentioned, although we had taken a good level of sales applications in the weeks leading up to the Government lockdown, restrictions imposed under Alert Level Four meant that we were unable to show prospective residents through our villages or complete sales, and residents who had submitted applications before lockdown were unable to sell their own homes, hence we encountered a delay in being able to settle these transactions.

Once the restrictions on sales eased in Alert Level Two, we recommenced sales activity and have recorded strong sales levels through June, July and August – 26% higher than the same months last year. We have seen particularly good levels of sales at both Meadowbank and The Sands over the last few months. We have now sold 54 independent living apartments and 29 care suites at The Sands (with a further 12 care suites occupied by residents paying a premium accommodation charge). At Meadowbank, we have now sold 34 of the 64 independent living apartments in Stage Four and seven of the 26 independent living apartments in Stage Five, as well as 38 care suites (with a further three care suites occupied by residents paying a premium accommodation charge).

Many new residents who have submitted ORA applications since lockdown have commented to us about how the lockdown period gave them an opportunity to reflect on their wellbeing and security, with the benefits of retirement villages – including stronger communities, security and peace of mind - being more prevalent over this period.

I will now provide an overview of how we are looking after our staff at Oceania Healthcare

As we have said before, Oceania Healthcare is very much a people business. Our dedicated team have a huge level of commitment to their roles and a real passion for doing a good job in delivering the highest level of care to our residents.

There were significant pressures on our staff during the lockdown given the need to isolate residents who had recently entered the aged care centre or returned from hospital, as well as the screening of anyone entering the centre and managing visits under Alert Level Two. We worked hard to maintain staffing levels throughout the alert levels and ensured that staff were well supported in their roles – right down to the detail of arranging babysitting so our aged care staff could continue to come to work. We also paid all site based operational staff an additional \$2/hour during Alert Level Four in recognition of the work they were doing under extreme circumstances.

We recognised our registered nurses on International Nurses Day on 12 May 2020 with the launch of “In Their Shoes”, a celebration of our dedicated and clinically skilled nurses who work at the forefront of New Zealand’s aged care sector. To mark International Nurses Day, each of our registered nurses were given a pair of bespoke Allbirds shoes to thank them for all their hard work, not just over the recent COVID-19 lockdown period but every day when they are at work delivering exceptional care to our residents.

We have also offered our employee share scheme to all permanent employees again this year. The scheme achieved a 70% uptake last year and 77% uptake this year and it’s great for our staff to own a stake in Oceania Healthcare and further reward them for the vital role they play in Oceania Healthcare’s success.

We made two new senior appointments during the year. Dr Frances Hughes CNZM joined Oceania Healthcare as General Manager Nursing and Clinical Strategy in October 2019. Dr Hughes was at the forefront of Oceania Healthcare’s clinical response during Alert Levels Two, Three and Four, with excellent leadership and emergency management over staffing protocols, PPE supply and usage, and heightened infection control. She also chaired the New Zealand Aged Care Association’s Nursing Leadership Group and was involved in the Director-General’s review of the aged care sector’s preparedness for a COVID-19 outbreak.

Brent Pattison was appointed as Chief Financial Officer in January 2020. Since joining Oceania Healthcare, Brent has been heavily involved in preparing the aged care industry's funding claim from the Government for additional costs incurred by the industry as a result of COVID-19.

I'll now turn to Developments

A key feature of our growth strategy has been the construction of our brownfields development pipeline. Prior to Alert Level Four, we were on track to complete 265 units and beds in FY2020. In the first half of FY2020 we completed 90 new care suites at Awatere and 10 villas at Whitianga. We completed 26 new apartments at Meadowbank and 12 villas at Elderslea in the second half of FY2020 before the lockdown restrictions were imposed. We slowed our build-rate in mid-March and used contract measures to reduce capital expenditure on our ten construction projects that were in progress at that time. Our ability to lower the monthly investment in our build programme and effectively match this with future sales of retirement village units means that we were able to prudently manage cashflow and risk in these segments of the business.

After coming out of Alert Level Four at the end of April, we were able to restart most of our construction projects and the development of 32 villas at Gracelands and six villas and a new community centre at Woodlands (in Motueka) were both completed prior to 31 May 2020. These two projects brought the total build rate for FY2020 up to 176 retirement village units and care suites. The restrictions on construction during the lockdown caused a slight delay with the completion of one of our larger projects, being the construction of 28 apartments and 61 Care Suites at Green Gables (Nelson), however this project is now complete as well with our first residents moving in next week.

We have also now recommenced construction of our developments at Lady Allum Village and Eden (in Auckland), The BayView Stage Two, The Bellevue (in Christchurch) and Awatere Stage Two (in Hamilton). The construction of 22 apartments and 71 care suites at The Bellevue is expected to be completed during FY2021 along with Stage Two at The BayView. So, in summary, right now we have 392 independent living units and care suites under construction across five sites in four geographical regions of New Zealand and 128 of these are expected to be completed before 31 March 2021.

We will also commence earthworks on our Waimarie Street development in October this year. This site will be one of the highest quality retirement villages in New Zealand offering a full continuum of care with 79 luxurious independent living apartments and 31 care suites.

Our remaining development pipeline of 1,764 units and care suites is 85.7% consented which demonstrates the excellent capability of our in-house development team in the design and planning for new projects. We also have a well-proven ability to deliver projects on time and on budget which provides the business with a very clear growth pathway over coming years.

Conclusion

So, in conclusion, we believe that aged care certainly is a great business to be in during these uncertain times and our growth strategy, through the redevelopment of our portfolio into superior care suite and independent living accommodation, has not changed in the light of a rapidly ageing population. We look forward to continuing to deliver the best quality of care and service to our residents within these environments over the years ahead.

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