OCEANIA
HEALTHCARE

ANNUAL MEETING – CEO'S ADDRESS
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Thanks Liz and, as Liz has already said, a warm welcome to everyone here today.

Over the last year we proved our capability in the design, construction, selling and operating of premium aged care centres and retirement villages. We are also continuing to demonstrate our point of difference compared to our listed peers with the higher weighting of our portfolio in aged care and in particular the higher returns generated from our care suite product. It's been a successful year for Oceania Healthcare and I will now share the highlights with you.

First, I will take you through the financial results for the year ended 31 May 2019.

Net profit after tax for the year was $45.4m which is below last year's reported profit due to the valuation of existing villages remaining stable this year when compared with last year. Although net profit includes the increase in fair value generated from the completion of the apartments at Meadowbank Stage Four and The Sands, it excludes the increase in the value of property, plant and equipment from the care suites completed at these sites, as well as the new care suites at The BayView.

As Liz has already mentioned, our underlying net profit after tax from continuing operations of $49.7m was down 1.8% on last year. This financial measure excludes the impact of unrealized movements in the fair value of investment property and records actual realised resale and development margins during the year. The fact that this was slightly down on last year reflects the timing of completion of Meadowbank Stage Four and The Sands in the very last month of our financial year, which meant that only a few residents moved into these new village developments by year-end.

The good news is that sales have been very strong at both new sites since year end, with 27 retirement village apartments and 7 care suites at The Sands now sold only three months since completion, and 16 retirement village apartments and 9 care suites at Meadowbank. The sell down of these two premium sites is obviously our priority for the year ahead and we are very pleased with progress made to date.

At The BayView in Tauranga, we have now sold 18 care suites which is practically all of the rooms available after we transferred residents from the older care centre late last year.

Our corporate overheads increased by 17% during the year, which is directly related to additional staffing required to commission and commence operations at four new care centres at The Bayview, The Sands, Meadowbank Stage 4 and Awatere. Going forward, our support office is now at the necessary scale to support the target development delivery of 250-300 units each year.

Our aged care occupancy increased to 92.8%, compared to 90.1% last year, mainly due to the investment made in refurbishing our existing portfolio and converting older, standard aged care rooms into care suites at some sites. As we go about redeveloping our premium sites, there will be a period where the earnings derived from those (existing) sites will reduce due to rooms being decommissioned and we incur operating costs to get the new centres established. After that we generate up front development margins from the first-time sales of units and care suites, while also creating strong trail income through the deferred management fees on occupation right agreements over village units and care suites and also the new aged care earnings from these new care suites. It is this increasing recurring cash flow and improved quality of our earnings that will underpin our ability to continue to pay an attractive yield into the future.

Over the year ended 31 May 2019, our headline aged care earnings reduced by $4.0m, of which $1.5m was due to the redevelopment of The BayView in Tauranga and Awatere in Hamilton, $800k from the refurbishment and conversion of standard aged care rooms to care suites at Elderslea, Middlepark, Otumarama and Holmwood, and a further $1.4m from the sale of the five sites to Heritage Lifecare that we settled in late September last year. Our core aged care business was accordingly quite stable year-on-year, with the impact of increased wage costs almost entirely offset by higher occupancy, higher premium revenue and the Government increase in the daily care fee.

Over the next year, we anticipate relatively stable aged care earnings, with the new aged care beds brought on line in the 2019 financial year at The BayView, Meadowbank Stage 4 and The Sands offset by the partial closure of Lady Allum Village for the first redevelopment stage at that site. Going forward from there, aged care earnings will increase as the deferred management fees are accrued on the new beds.

Our net operating cashflow of $89.3m was 8.6% higher than last year as a result of generating sale proceeds from our developments that we completed in the previous financial year, particularly Meadowbank Stage Three.

Finally, looking at our balance sheet as at 31 May 2019, our assets are now $1.4 billion, which is a 22% increase over the previous year and reflects our completed aged care and retirement village developments as well as new land acquired adjacent to existing sites at a number of Auckland locations during the year.

Our total net debt as at 31 May 2019 of $248.2m represents a gearing level of 28.9%, compared with 22% as at 31 May 2018. We continue to maintain sufficient headroom and flexibility in our debt facilities while executing our development pipeline.

I’ll now move on to an overview of the Care segment of our business.

As you know, aged care is at the heart of our business – it is our core competency and we are market leaders in the delivery of the highest levels of clinical care. We have a comparatively higher mix of hospital level care beds in our portfolio compared to other operators and are continuously innovating in both service delivery and product offering. We were pleased to win both the Innovative Service Delivery and the Excellence in Food awards at the annual New Zealand Aged Care Association conference last September, and that was with strong competition from our listed peers.

We are continuously improving our aged care offering and are well down the track to executing our strategy in our aged care business with the transformation of our portfolio into a higher mix of premium aged care product through our new care suites, as well as converting standard rooms to care suites around the country. At the end of May 2019, 38% of our portfolio comprised premium beds and units, and this will increase to 50% by the end of the next financial year to

May 2020. By the time that we complete the redevelopment of our brownfields development pipeline, that mix will be 70% premium and 30% standard rooms, a considerable transformation in the portfolio.

An important feature of our aged care strategy is the enhancement of care and hospitality service standards at our care centres. We have introduced our new superior service delivery model to our care suite residents at Meadowbank and The BayView over the last 18 months, which provides them personalised, resident-centred services, and have just welcomed residents into our new care suites at The Sands and Awatere over the last couple of weeks. It has been great to see our residents enjoying our new model of care service delivery, with fabulous food, leisure activities and beautiful common areas.

I'll now give a summary of how we're rewarding our people at Oceania

In addition to providing exceptional care to our residents, we have been investing a lot in our people over the past two years. Oceania Healthcare is very much a people business. We delivered a significant increase in the pay rates for registered nurses last year, as well as the second year of the Government's equal pay settlement for healthcare assistants. We also increased the rates for our housekeeping staff across the country. Our pay rates for registered nurses are now equal to or above the base rates for RNs working at DHBs at all levels and are amongst the highest in the aged care sector. These increases have improved staff retention and have helped us attract the best registered nurses in the sector.

We have just launched our employee share scheme which all of our permanent staff have been invited to participate in. 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.

One of the key areas of focus for us all has been enhancing our health and safety training and support programmes across our sites. We have developed a robust contractor management process and training programme and are rolling this out nationwide. Our ongoing focus in this area has had a positive impact on our business, as we made a significant reduction in our injury rates during the year to 31 May 2019 and, in doing so, provided our staff with a safer workplace than ever before.

There has been increased scrutiny of the retirement village sector recently and the terms that operators offer to their independent living residents. Oceania Healthcare is an active member of the Retirement Villages Association and we take our responsibilities as a retirement village operator very seriously. We have received positive feedback from lawyers and residents about how easy our agreements are to understand, and we therefore feel well positioned for any changes recommended to the disclosure requirements for retirement villages in the future.

I'll now turn to Developments

As Liz mentioned earlier, we have made good progress on our development sites during the year and have proven our ability to execute our brownfields development pipeline with our highly talented internal development team to extract the value from these locations that we projected at the time of our IPO. In the 2019 financial year, we delivered all 272 retirement village units and aged care beds at The BayView, Meadowbank Stage Four and The Sands which are a high quality product and are attracting strong demand in the markets in which we operate.

During the year Oceania Healthcare invested \$135.0m in construction capital expenditure, an increase of \$56m over the prior year investment of \$79.0m and close to triple the amount capital invested in FY17. This investment is driving our growth in NTA through the redevelopment of our brownfields locations, as well as enhancing near term development margins and longer term trail income streams through deferred management fees and aged care earnings.

We have also received Ministry of Health certification for our new care centre at Awatere in Hamilton. This new centre comprises 90 new care suites and our team moved 69 residents from the old care centre into the new care centre in the first week of August. We are now selling the remaining rooms as care suites under occupation right agreements. We are expecting to start Stage Two of the redevelopment later this year, with the construction of 63 apartments where the old care centre was located.

In addition to completing these four key developments, we have had a busy year progressing our other developments. Firstly, we are making good progress at our Green Gables development in Nelson. This is being developed as one complete project comprising 28 apartments and 61 care suites. The site is very close to the city centre in Nelson in a high value area of the region with good demand for aged care. We are looking forward to completing this in the second half of the 2020 financial year.

We are well underway with construction of Stage Five at Meadowbank, comprising an additional 26 apartments. This is the last stage of planned apartments for this site and will bring the total number of independent living apartments at the Village to 192. We are also expecting to complete this stage in the second half of the 2020 financial year. We have been granted resource consent to construct 35 dementia care suites as Stage Six at Meadowbank and we are working through the design stage of this at the moment.

Our development at Windemere in Papanui, Christchurch is progressing well. We are developing 71 care suites and 22 apartments at this site, along with a new community centre. This is another one of our key brownfield development sites located in a prime metropolitan location with good demand for aged care and we are expecting to complete this in the 2021 financial year.

I've already spoken about the completion of the care suites in Stage One at The BayView in Tauranga and the completion of Stage One has freed up the land occupied by the older care centre to enable us to start Stage Two. This next stage comprises 74 apartments and a new community centre for our independent living residents. Construction of this stage started in December 2018 and is on track for completion in the 2021 financial year.

At Gracelands in Hastings we have completed the earthworks required for 32 new villas on land adjacent to the existing village. Construction is now well underway with completion scheduled for early 2020.

In addition to these larger developments, we have smaller villa developments underway at the moment at Whitianga (in the Coromandel), Elderslea (in Upper Hutt) and Woodlands in Motueka, as well as ongoing care suite conversions at a number of sites.

So, as you can see, all of our current developments are progressing well and we are looking forward to delivering 265 units and care suites in the 2020 financial year.

Next, I want to say a few words about our development pipeline

We have a substantial development pipeline that extends well beyond the 2020 financial year, with sufficient land to build 1,903 new units and care suites. Of those, we have already obtained consents for 1,362 units and care suites which represents 71% plus of that pipeline. As a management team, we are thrilled to have received the resource consent for our Waimarie Street development. This is a unique opportunity for us to construct a boutique village, comprising 107 apartments and care suites, in the heart of St Heliers, Auckland, with most units enjoying stunning views over the Waitemata Harbour and the Auckland CBD. With the resource consent now granted, we are putting the finishing touches on the design of the village and are looking forward to construction starting in the second half of 2020.

We are also about to start construction next month of 49 apartments and a new community centre on the land that we bought last year next door to our Eden Village and we are expecting to complete this in the 2021 financial year. Later this year we will begin the exciting redevelopment of Lady Allum Village in Milford, the first stage of which is expected to be completed in the 2022 financial year.

Based on our established track record, we are confident of being able to consistently deliver 250 units and care suites per annum going forward for the next five years on our existing landbank without the need to make further acquisitions at this time in order to maintain the build rate. Having said that, we are looking for opportunities to add to our landbank and if a good opportunity came up, we would consider this in the same way that we acquired the Waimarie Street properties last year.

In conclusion, it's been another successful year at Oceania Healthcare in 2019 as we completed our key developments and made good progress in transforming our aged care portfolio. With some of our projects now complete, new sales volumes will be strong in the year ahead and high development margins are already being generated from the sell down of these premium villages. As a management team, we are focused on delivering you consistent year on year growth as we build, sell and operate fantastic new sites across the country.

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