OCEANIA
HEALTHCARE

ANNUAL MEETING – CEO'S ADDRESS
20 SEPTEMBER 2017

Thanks Liz and, as Liz has already said, a warm welcome to everyone here today. As you all know, it has been a rather long journey to bring the Company to this point but we are all very excited about our future now that we have a good strong balance sheet and the support of our investor base.

As CEO I am very proud of what we deliver as a business on a daily basis – it is incredibly special and indeed a privilege to be entrusted with the care and wellbeing of our 4,000 residents across New Zealand. This is a Company with a heart, a strong sense of purpose and a passion for the work that we do.

I'm not a CEO that sticks to his office day-in and day-out – in fact quite the contrary I believe in getting out amongst our facilities and being visible, transparent and accessible to staff of all levels – to influence culture across the business. Over the three years that I've been back at Oceania Healthcare, I've been around all 50 facilities in the Group several times and, when I'm at the sites I give staff an opportunity to come and meet me to have a chat. By far what strikes you when you meet these people is the deep desire amongst them to do the best job that they can for their residents – they make comments to me like "I was born to do this job" and "our work is incredibly special, you need to have a heart for it" or "this is far more than a job, it's a calling". When you've got staff with this level of commitment to their role and sheer passion for doing a good job, it's just an honour (as a management team) for us to lead them and when they are led well, we can achieve very good outcomes for our residents.

Being a business focused on Care, Oceania Healthcare is uniquely positioned to take advantage of the increasing demand for Care and retirement village living in New Zealand as our population ages and, in particular, as the first of the baby boomers reaches their mid-70's. There's a chronic shortage of aged care beds coming in the next three to five years given the current demand/supply dynamics, and given our focus on Care and the delivery of a more "needs-based" product, we can be at the forefront of the growth required in this market.

That growth will come predominantly through the rollout of new developments on our brownfields development landbank. As Liz has mentioned, this is a core asset and strength of Oceania Healthcare and with our care suite model and premium charging we are able to sustain our weighting towards care across the portfolio, while also taking advantage of the commercial returns from the retirement village business model which is obviously well established in New Zealand. We are underway right now with the construction of 316 beds and units across five sites in Auckland, Tauranga and Nelson (which I will take you through shortly) and have also increased our consented pipeline to 1,072 residences. We also of course delivered on our Lady Allum Attwood Apartments in Milford on the North Shore of Auckland (44 units) – completed on time and on budget in late April this year – and have now sold 29 of these within only five months. Planning for future stages of development at Lady Allum is now underway and we expect to be in a position to lodge a resource consent application for this by the final quarter of the current financial year. This is a good example of how Oceania Healthcare will create value through redeveloping sites in prime metropolitan locations and taking advantage of new Local Authority planning regimes – effectively turning a single-site facility into several storeys, similar to what we have been able to achieve at our Maureen Plowman site on the beachfront at Browns Bay in Auckland.

But before I run you through progress on our five current developments, I will cover off our financial results for the year which, as we announced in late July, were above our IPO forecasts for the year ended 31 May 2017.

Our reported net profit after tax was $44.9m which is well above our forecast of $25.3m due to a significant increase in the fair value of our investment property, including a $43.9m increase in our existing retirement village assets.

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Our proforma underlying net profit after tax was $34m which is above our forecast of $33.5m with all three operating segments – aged care, retirement village and support office ahead of forecast for the year.

Our aged-care business generated average EBITDA per bed of $12,648 which is above IPO forecast, driven by average occupancy of 90.4% which is 0.5% ahead of our forecast and also ahead of the national average for the year of 86.0%. Our bed mix (hospital to rest home) was similarly ahead of forecast, as was our premium accommodation charges, which averaged $11.18 per bed over the year compared to a forecast rate of $10.52.

In our Retirement Village segment, resale gains were in line with our forecast at an average resale margin of 27.4%, which is strong compared to our listed peers. Our resale volumes were nine units ahead of where we expected in our IPO forecasts with 151 unit sales achieved over the course of the year. Sales of our new units and care suites delivered during 2017 generated a development margin of 22.9% and we sold 52 of these, which was six units ahead of forecast. Our average sale prices across the portfolio for new sales have increased from $388,500 per unit or care suite in 2016 to $437,600 in 2017.

The embedded value in the portfolio increased over the year – from $115.5m in 2016 to $141.3m in 2017. This measure is essentially the difference between the current resale value of all existing units in the portfolio and the amounts that we would have to pay to all outgoing residents. It is a good leading indicator of future deferred management fee and resale gains, and has been increasing steadily year-on-year over the past three years.

Our net operating cashflow was also well up on forecast at $38.9m which reflects higher than expected revenue in Care and Village, lower operating costs and in particular stronger sales of both new units and resale units.

Finally looking at our balance sheet as at 31 May 2017, which was obviously strengthened by our capital raising in April this year, but also by a $135m or 17% increase in total assets to $918m. This increase was driven by development capital expenditure over the course of the year, acquisitions of sites previously leased, and this year's fair value increases as outlined earlier. Our total net debt as at 31 May 2017 of $84.4m is lower than we forecast and represents a conservative 15.3% gearing level – effectively we have $68.5m development debt drawn against $131.2m of underlying development assets. We have plenty of headroom in our debt facilities to complete the rollout of our brownfields development pipeline as well as make opportunistic acquisitions of brownfields or greenfields sites as they arise. And, as Liz has already mentioned, we announced earlier last week the acquisition of a 2,668 square metre property neighbouring our Eden facility in View Road, central Auckland. The site has direct access to Eden and enables us to extend our retirement village and care offering to satisfy the high demand for this product in the Auckland region.

Our forecast for the current financial year to 31 May 2018 is for $62.2m proforma underlying EBITDA as we set out in our Product Disclosure Statement at the time of the IPO. Our Care business continues to steadily deliver and (as just mentioned) sales of the new retirement village units at Lady Allum are progressing well, accordingly to forecast rates. Presale applications of stage 3 at Meadowbank are now at 22 units and we forecast that 28 units would sell between completion and 31 May 2018. As I will show you shortly, this development is progressing to plan with the first residents moving into their new homes in February 2018.

Now I'd like to give you an overview of the five sites that we currently have under development, to give you a closer view on progress and some comfort that the execution of our growth strategy is underway.

Firstly, at Meadowbank as I've just mentioned, construction of stage 3 comprising 62 apartments and 30 care suites is nearing completion, as you can see from the photos here the roof is on and internal fitout of the rooms is in progress. This stage of Meadowbank includes the new community centre including bar and dining areas, library, gymnasium, craft room, hair salon and cinema. We are also currently negotiating pricing for the construction of stage 4 of this site with Aspec Construction Limited under a fixed price, lump sum arrangement. Stage 4 comprises 49 apartments and a further 32 care suites as well as basement carparks and is due to be completed in the 31 May 2019 financial year.

Our next development site, Maureen Plowman, also occupies a premium location on the beachfront at the northern end of Browns Bay and we are developing 64 premium apartments and 44 care suites on this site. As you can see from the photos we are nearing completion of the basement works and expect to be "above ground" by mid-October. We expect to be complete here by May 2019 and will commence presales in the second half of the summer coming, around February/March 2018. Interest in the site is strong as you'd imagine with our call centre already taking 70 expressions of interest from potential purchasers.

Our third Auckland site under development is at Elmwood, in Hill Road Manurewa – which is located opposite the botanical gardens. We acquired a property adjoining the site to the West in late 2016 and are constructing 25 new villas on the site, with works scheduled to be complete in a few months. This project is also subject to a fixed price, lump sum construction contract with Waide Construction and seven presale applications have been received to date.

We are also underway with the construction of our new 80-bed Care facility at Melrose in Tauranga. This is the first of five planned stages for the redevelopment of this site overlooking the Tauranga harbour and Mount Maunganui which will ultimately house approximately 250 retirement village residents as well. Given the scale of the property – 5.7 hectares in total – we are able to build the new care facility here first before decommissioning the older care building, which will maintain the continuity of care services on the site. It also means that we will be able to commence operation of the new care facility when it's completed by transferring the existing Melrose care residents directly across – maintaining our care revenue while selling down the first stage of care suites.

The final site with units under construction right now is at our Stoke Retirement Village in Nelson. We are constructing ten of our "Nikau"-style units here which is our lower-cost retirement villa. We have spent considerable time and effort engineering these units to remove as much cost as possible, whilst maintaining a high quality design and finish. Over time we will further refresh the product at this site and roll out more Nikau units as the opportunities arise.

So that covers our 316 beds and units under construction right now; we will be shortly commencing Stage 4 at Meadowbank as I mentioned earlier which will add a further 81 beds and units and early next year will begin at Trevellyn in Hamilton, where a 90-bed Care facility forms Stage 1 of the redevelopment of this site on the Waikato River only five minutes from the centre of town.

Along with the upcoming redevelopment of Green Gables in Nelson and Windermere in Christchurch, I trust that you get the impression that we have many years of tangible growth in front of us.

Finally, before I hand back to Liz, just an update on some real highlights in our Care business. We continue to achieve excellent Ministry of Health clinical audit results with our average number of partial attainments per audit now 1.5 which is well below the industry average of 7.0 and we also have 8 facilities with the maximum four-year certifications with the balance all at three years. We have also commenced the implementation of our new clinical information system and have recently received two notable accolades from our industry which demonstrate the high quality of our care that we deliver to our residents. The first of these was in relation to our food offering where we won the Senior Lifestyle Cuisine Award for the third year in a row. In addition, just a fortnight ago we once again – for the third year in a row as well – won the Overall Excellence in Care Award at the New Zealand Aged Care Association annual awards in Rotorua.

Our entry for this year's New Zealand Aged Care Association awards was our "I Love Music" campaign which is where we give residents a small i-pod with a playlist of familiar and favourite songs that trigger memories for them. As we all know, songs have an interesting way of taking us back to where we were, who we were with, or how we felt when we listened to them. In order to identify an appropriate playlist, we approach the families of residents to help suggest the best songs for their mother or father, thinking about their interests when they were younger. We then load the i-pods and our staff at each site help both resident and family members to use the device. The results have been just incredible with residents showing improved wellbeing, communication, and general mental health. Just watch this video to see for yourself how our residents have responded ……

The winning of this Award puts Oceania Healthcare at the top of the industry in terms of innovation and quality, reinforcing our <u>premium</u> care-offering which somewhat sets us apart from the other listed operators.

We are very proud of what we have achieved through 2017 and look forward to continuing to deliver for our stakeholders in 2018 and beyond.

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