Metlifecare

ANNUAL SHAREHOLDERS MEETING
24 OCTOBER 2019

CHAIR & CHIEF EXECUTIVE OFFICER ADDRESSES

Metlifecare Annual Shareholders Meeting – Thursday 24 October 2019
Chair & CEO Addresses

Kim:

2019 has been a successful year for Metlifecare, producing strong financial results despite facing more challenging conditions in the property and construction markets. The Board was pleased to report a record underlying net profit before tax of $90.5 million. We have also seen improved operating cash flow along with a solid sales performance and some excellent achievements on the operational front. We are confident this performance puts us in good stead for the year to come and accordingly have lifted the dividend by 10%.

Glen will be providing an overview of the company's FY19 financial performance in his address, as well as sharing some of the operational highlights and strategic initiatives which are underway for FY20.

I will outline the key governance aspects of the business and how the Board's involvement over the past year has assisted with governing and providing direction to the company for the benefit of our residents and people and, in turn, our shareholders.

Over the last year, our directors have undertaken an extensive programme of village and development site visits as a Board, in groups and individually. These visits represent a great way for us to interact with village customers and employees and appreciate first-hand the distinct culture of each village. We enjoy observing the day-to-day operations of our sites in action and most importantly, our staff engaging with residents and providing a high-quality level of care. During the tours the Board is encouraged to keep a strong focus on health and safety, particularly at all development sites. The visits provide great insight into the business and enhanced contribution around the Board table.

Our Board subcommittees meet regularly which provides an excellent forum for both the Executive Team and other members of senior management to engage with Board members on wide-ranging topics. Pleasingly, many Board members attend committees that they are not members of to listen and, where appropriate, contribute to the discussions. The committee structures ensure we maintain strong leadership in the areas that matter most to the business but also deepen director understanding of the various parts of the business.

To operate effectively and to meet our responsibilities as a Board, we need to have a diverse combination of relevant skills, experience and views which align with the company's business drivers – we achieve that with our current Board and committee composition.

Our Board skills matrix is reviewed annually with an eye on the future. In accordance with good governance principles and in compliance with the NZX Listing Rule requirements, our directors are up for re-election every three years. We have a formal succession plan in place which maps out our director refreshment programme. This year one of our directors, Carolyn Steele, is retiring by rotation, and is standing for re-election with the unanimous endorsement of the Board. You will have the opportunity to hear from Carolyn later in the meeting.

Further updates to the NZX rules have meant that one of our directors, Dr Noeline Whitehead, is now considered as "non-independent" due to her close family ties with a member of our executive team – Noeline is the mother of our Clinical Director, Tanya Bish. In addition, the updated rules have required us to amend our constitution, the changes being largely procedural in nature. The adoption of this amended constitution is covered in a resolution to be voted on later in the meeting.

During the year, the Australian Prudential Regulation Authority (APRA) Prudential Inquiry highlighted lessons from the failings in governance of the Australian banking sector. We considered the findings of the inquiry closely, particularly in relation to the management of our non-financial risks. One such risk identified in the Report is having an overly collegial environment - lessening the opportunity for constructive criticism at both Executive and Board level. I am confident that the robust discussions that we have around the Board table and our frequent, constructive questioning of management underpins the company's commitment to best practice in governance.

To provide continuing assurance of this

- we engage an external provider to review our performance as a Board and as individual directors every two years. This is a comprehensive process, the recommendations from which are then included in the Board programme for implementation.
- additionally, each Board meeting is summarised at its conclusion by a director (on rotation) who provides a review and key take outs from how the meeting was run and how directors engaged individually and collectively. This encourages a forum of open feedback and continuous improvement.

At each Board meeting and at the annual strategy workshop, we spend time reviewing strategic topics (enhanced from time to time by external experts) that we consider need particular attention. In addition, this year the Board had two full-day meetings to dig deep into how to accelerate the creation of shareholder value. This was a valuable exercise and enabled the Board to re-assess several aspects of the business away from the normal Board and subcommittee meeting cycle.

Dividend

The Board was pleased to declare a final dividend of 7.25 cents per share. This took the total dividend to 11 cents for the full year, 10% higher than last year, underpinned by the improvement in our underlying operating cash flow. The dividend was calculated in the middle of our indicative payout range of 30 to 50% of underlying operating cash flow.

Bond

A highlight of the year was the recent issuance of our $100 million inaugural retail bond. The minimum target was $75 million, with the ability to accept up to $25 million in oversubscriptions. The response to our offer was outstanding, being significantly over-subscribed with a final coupon rate of 3%. This reflects investor confidence in our company as well as our healthy balance sheet. The $100 million proceeds from this transaction have been used to retire bank debt used to fund our development programme. The funds have meant that we now have more diversified funding sources and tenor.

Buy-back

I would now like to address the issue of a share buy-back – a subject that I briefly touched on at last year's Annual Meeting. After extensive consideration and analysis by the Board including robust feedback and engagement with our major shareholders, we have determined that we will proceed with a share buy-back programme for up to $30 million. We will provide further detail on this to shareholders in November.

Given the sustained significant market discount to the intrinsic value of the company, this investment will be a value accretive allocation of capital. I must emphasise that it will in no way impact on the momentum of the accelerated development programme which Glen will talk to shortly.

The share buy-back programme reflects the Board's view that the Company's current share price represents a significant and largely unexplained discount to the underlying value of Metlifecare.

Pace of Development

The company delivered 182 new homes and beds across four villages during FY19 - with the exciting milestone of the first stage of our new Gulf Rise village at Red Beach opening recently. We made programme timing changes during this year to ensure our vertical construction model met significant market (price/cost) challenges to retain development margins. We have confidence in our strategy of building in high value locations, the design and market characteristics of our new village pipeline, and our ability to deliver profitable developments in a changed market. Glen will expand shortly on the construction programme planned for FY20 and FY21.

I would like to take this opportunity to thank our entire Metlifecare team of 1,100 staff. Our people are at the core of what we do and we take great pride in the team that we have, both on the ground at the villages and at support office, as well as our long-standing partnerships with external providers who continue to serve us well.

As Chair of the Board, I would also like to thank my Board colleagues for bringing a wealth of experience to the table and for consistently providing valuable guidance and support to the business. It is much appreciated.

Finally, before handing over to Glen, I would also like to thank you, our shareholders, for your ongoing investment in and support of Metlifecare. The FY19 year demonstrates how resilient our business is and is reflective of the hard work and contribution from everyone across the company. We are looking forward to a year of continued growth, execution of some promising strategic initiatives and opportunities for delivering some really innovative, thoughtfully designed and profitable developments.

Thank you. I will now hand you over to our Chief Executive Officer, Glen Sowry.

Glen:

Introduction

Thank you, Kim. Good afternoon, ladies and gentlemen and welcome also to our webcast attendees. Thank you all for making the effort to attend.

Kim mentioned that our people are at the core of our business and I would like to touch on that first, before moving into an overview of our financial results, a sample of highlights from the year, and sharing with you some of the strategic initiatives that we have on the horizon.

People

Attracting, retaining and developing the best people is a key driver of sustainability for our company. We believe that fully engaged and talented people are the basis for success for any company but particularly for one whose core business is grounded in enriching the lives of people in their later years. This is a responsibility and a privilege that we do not take lightly.

That is why we invest so heavily in our people by offering extensive learning and development opportunities, promoting health and wellbeing, upskilling our employees, and rolling out training programmes which inspire and connect our staff in delivering exceptional communities and a superior standard of care to our residents.

As an example of our investment, this year we added an in-house nurse educator to the business, augmenting our clinical training capabilities and enabling consistency of training across our teams. We also developed our Wellbeing Programme which has led to the introduction of a digital platform or Wellbeing Hub where our people can go to be informed and inspired about their wellbeing. This is also now being extended to our residents.

One of our priorities at Metlifecare is to support our staff and residents in living a happy and healthy life as part of their journey with us. So, it's great to see the positive take-up of these initiatives by many staff members and resident communities.

It has been rewarding to see further improvement in our employee engagement with our recent survey scoring 81% for overall engagement. The introduction of our business-wide engagement champions has resonated well with our people.

Encouragingly, we have also seen sustained year over year improvement in our staff retention metrics with these continuing to improve from over 23% to under 19% in FY19 which is a pleasing trend.

We take the health and safety of our employees and contractors seriously. Health and safety was one of the areas our stakeholders indicated they consider most important following our recent ESG survey. We have substantially improved our operating procedures for hazard and risk management and held a comprehensive training course for health and safety representatives together with ongoing training for asbestos and manual handling. Metlifecare was accepted into the ACC Accredited Employer Programme which has assisted us to better identify injury causation and improve our prevention programmes. We continue to set the standard high with health and safety.

We have some ideas in motion to further engage and invest in the learning, development and wellbeing of our employees which I firmly believe will lead to an even stronger culture of high performance and even better outcomes for the company in the long term.

Financial Results

Turning now to the financial results for FY19. I am pleased to report that Metlifecare has made steady progress over the year, with some stand out achievements for the company.

As Kim noted, we continue to generate strong underlying profit and underlying operating cash flow. The 4% increase in underlying profit was primarily driven by solid revenue growth, up 14% to $131 million, the result of increased settlement volumes and resales margins, as well as a higher contribution from our care business. The higher care contributions are primarily due to strong premium revenue growth and consistently high occupancy rates.

We continued to see strong demand for our village offering. During the FY19 period, we settled 116 new occupation right agreements, an 18% uplift on last year. An additional 45 homes were under contract at 30 June 2019. Given the challenging market conditions, this was a credible result. The average sales price per new home generated a total realised development margin of $16.9 million, or 21%.

We also settled 354 resales of occupation right agreements with a further 70 homes under contract at balance date. The average selling price per home increased by 6% and drove a 15% lift in realised resales gains to $71.5 million.

Our total assets are now valued at $3.5 billion, an increase of 7% from the same period last year. Net assets per share rose to $6.96.

Our sales performance since 30 June 2019 has maintained FY19 momentum. The latest Market commentary from Westpac's Chief Economist highlights that in the past two months there has been a two-percentage point lift in Auckland house prices. Encouragingly, there has also been a lift in the number of houses sold and a reduction in days on market which are all positive signs of an improving Auckland housing market. We expect this will translate into improved sales performance over the next 12-24 months.

Care

The completion and opening of our new homestead-style care homes at Papamoa Beach Village and The Avenues in Tauranga last month, was a big milestone for our clinical and development teams.

Demand for these industry-leading care homes has been positive with 21 residents moving in to date. We have received wonderful feedback from new residents and their families on the exceptional quality of the living environment and the high level of personalised care provided by our staff.

At Papamoa Beach Village, the Toi Toi Dementia Community has opened within the new care home and is our first dedicated care wing for those living with advanced dementia. We will look to reproduce this model in several new village developments in the next few years.

We take great pride in the fact that 75% of our established care homes have now achieved the 'gold standard' Ministry of Health four-year audit certification. And we are proud of the high average occupancy rates across all our care homes at 96%.

We are now providing access to the full continuum of care at most of our villages through traditional care homes at villages or within clusters, and by using care providers to deliver care into independent living units and apartments at other sites. We are planning to be able to provide the full continuum of care to residents at all of our existing and future villages through this cluster approach within the next two to three years.

Acquisition and Development

Kim touched briefly on our development highlights for this year.

In keeping with our accelerated growth strategy, we invested $240 million in the financial year to 30 June. This consisted of land purchases, development, reinvestment projects and care homes. We added to our development land bank with the purchase of additional land at our Botany golf course site as well as an adjacent site at Oakridge Villas in Kerikeri. Both these acquisitions position us well for future village expansion.

Our new-generation village at Gulf Rise, on the Hibiscus Coast, has progressed throughout the year, with 35 villas now completed. We were delighted to welcome our first customers to the village in August. Construction continues on our first community building and we will deliver another 20 apartments at the village next month.

48 apartments at Greenwich Gardens Village have recently been completed and we expect another 48 to complete in this financial year. Our redevelopment at Edgewater Village (where we are looking to build a total of 46 independent living units, and 24 care beds) is in the detailed design phase and construction will commence next month.

We are looking forward to development commencing on our new villages: Pohutukawa Landing at Beachlands, Botany and Orion Point in Hobsonville and continuing with the next stages at Gulf Rise. The design and consenting stages of these four villages are shaping up well. We are pleased with how these projects are tracking with building construction at Pohutukawa Landing and Botany and the next stages at Gulf Rise due to commence in early 2020. Our development cadence for FY21 is likely to be 250-plus high-quality units. I am really proud of the work that has taken place in the last six months to get these projects to where they are now.

[I would like to now share a short highlight reel of some memorable moments from the past year.]

Strategic Initiatives for FY20

Our ambition at Metlifecare is creating enriching living experiences and I think this is definitely demonstrated in this video. Looking forward, we have some exciting initiatives underway for FY20 that will further our strategic ambition. In a competitive environment we are intent on finding new ways to add value to our customer proposition, while maintaining focus on our core service offering and high standards.

Such initiatives include the second phase of the Find Your Fit campaign: a campaign aimed at giving future residents a choice of a range of our villages within a geographic area to help them find the home and community that fits best with their unique preferences. We've also been introducing the concept of flexible-serviced apartments where residents receive more flexible care service offerings.

Following a successful pilot at one of our villages, we are currently rolling out a technology which has had success overseas, called EEVI. This is essentially an emergency response device/system, which enables quicker and more efficient handling of emergency calls from residents to staff. We are looking forward to further exploring the value-add potential of EEVI.

Having a meaningful and impactful 'Environmental, Social and Governance' or ESG strategy is a focus for Metlifecare in FY20. We have surveyed our stakeholders as to what is important to them in this space. We are now in the development phase of our strategy, forming an action plan and directing our attention on those particular areas that our stakeholders have identified as important.

We know from structured and informal feedback that this is not only important to us, but to our current and future customers and to you as shareholders, and as we look to the future I can assure you this is an area we will invest increased energy on.

Conclusion and Acknowledgements

In closing, I would like to acknowledge our 5,500 customers who are the reason that we are all here today.

I would also like to acknowledge and thank the entire Metlifecare team for their ongoing dedication, passion and collaborative culture that they demonstrate each day.

Thank you to the Board for your sound advice and guidance - we are appreciative of the varied skill sets, perspectives and experiences that you bring to the table.

And to you as our shareholders, thank you for your ongoing support and confidence in Metlifecare.

I would now like to invite questions in relation to the addresses.