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SUMMERSET ANNUAL MEETING – CHAIRMAN AND CEO ADDRESSES

Chairman's Address

Welcome and thank you for joining us at Summerset's 2019 Annual Meeting.

We are now in our 21st year of operation with 25 villages and another 11 sites for development in New Zealand.

We have more than 5,000 residents, more than 1,400 staff, and we are New Zealand's fastest growing retirement village and aged care provider.

Our overall strategy is simple in that we aim to be a preferred destination for people seeking retirement living or care; to be a preferred employer; to play a positive role in the wider community; to continue our growth; and to do all of this in a fashion which creates value for shareholders. All of this of course is easy to say, the key is ensuring it happens. I believe we continue to progress well and I hope our results and how we achieve them demonstrates that.

I will touch on how the business is in all of these respects through my speech. I will also address three topical issues, being the increasing focus on quality aged care, the slowing property market we are seeing in Auckland and Christchurch, and our ongoing growth.

Our business and financial performance

Financial performance for the 2018 year was strong with underlying profit of \$99 million, up 21% from the prior year. Through the latter part of 2018 we began to see the Auckland and Christchurch residential property markets slow. We see this financial result as pleasing given this backdrop. Since then we have seen further slowing in these markets. I will touch on this in a moment.

We sold 339 new occupation rights in 2018, down slightly on the previous year, and made 301 resales. The slight dip in new sales was largely due to timing: some of our larger buildings were delivered late in the year.

We continued to have a strong development margin, up to 33.2% on new sales for 2018 compared to 27.3% in 2017. In the longer term we expect development margins to moderate in the 20%-25% range.

Performance of our care business has also been strong with occupancy at 96.3% for our established facilities.

Our operating cash flow for 2018 was \$217.8 million and total assets reached \$2.8 billion. The total dividend payment for 2018 is 13.2 cents per share which is 30% of Summerset's underlying profit.

In 2018 we built 454 retirement units, in line with our earlier guidance. This result made Summerset the largest builder in New Zealand for retirement units in 2018. While this is not one of our goals, the achievement clearly demonstrates Summerset's growth since its listing in 2011, when we built 122 retirement units.

We purchased five sites in 2018 (Te Awa in Napier, New Plymouth, Papamoa, Waikanae and Milldale, north of Auckland), as well as another two in Blenheim and Rangiora just announced last month. We have deliberately shifted our landbanking focus in the last two years to broadacre sites in attractive urban fringe, retirement destination and high growth regional centres. We already are in the process of building on or consenting key urban sites such as Ellerslie, St Johns, Lower Hutt and Parnell. These broad acre sites provide a balance to these urban locations and we currently see these as more attractive given high land costs, construction cost pressure, and weakening residential prices in urban areas such as Auckland. The sites we have acquired in the last 18 months have been relatively low cost and represent a strong pipeline of growth for us.

It is a strength of our business to have a diverse portfolio in terms of geography and construction types whereby we are able to move our focus to the most attractive areas as appropriate.

We are still seeing capacity constraints for construction in many areas of New Zealand with Auckland being the worst affected. We do not expect the pressure in the construction market to reduce this year. There were a number of construction-related company failures in 2018 and while we have had very limited exposure to any of these we believe 2019 may bring more and Summerset will continue to be vigilant in this area.

Recently we released our first quarter sales results to the market. New sales were 71 compared to 68 in the same period last year. Resales were 66 compared to 75 for the same period. In this release we signalled that we were seeing increased settlement times particularly in Auckland and Christchurch. While we are performing robustly across the rest of the country, we are seeing settlement times increase, particularly in Auckland and Christchurch. These have negatively impacted our Q1 sales result, in particular new sales as around 60 of our new stock is in these markets this year.

Fundamentally demand remains robust for our product and will continue to grow over time. Our resales also continue to perform well with fewer unsold resale stock than at 31 December 2018. Although we expect these conditions to continue through this year we do not expect any material increases in unsold stock numbers.

Financial commentary

Last year we completed our second bond issue with a seven-year senior bond. The issue attracted strong demand and was oversubscribed by \$50m with a final issue size of \$125m and a coupon of 4.20%. Our two bond issues provide us an attractive form of funding, with long tenors, competitive pricing, and attractive terms. They also provide a diverse funding source.

Summerset's gearing remains conservative at 32.3%. This is considerably below the level of the financial covenant in our debt agreements, which is 50%. Unlike many businesses our debt position is not "core" debt but effectively working capital as it funds only development assets for the business such as land, work in progress, and completed units. As such we are able to reduce our debt levels quickly by altering the pace of our development business.

Operations and care

Our operations and care business has continued to perform well with, as I said, care centre occupancy at 96.3% for 2018.

A government review of care funding is underway currently, and results are expected in 2019. Our strategy in the care business is to focus on being a leading provider of quality care, investing in facilities, equipment and people in order to do this. This position ensures we can charge additional service fees for the superior care and accommodation we provide. The strategy has worked well for us and we will continue to pursue it, given constraints on government funding.

Australia

As some of you will know, taking the Summerset business into Australia has been an active consideration for us over the last two years, and we are now in the process of identifying potential sites for acquisition in Victoria.

Property prices in the Melbourne residential market have fallen around 10% over the last year. We expect prices to continue to fall with the upcoming election adding to uncertainty. We are proceeding cautiously given the property market changes and will apply appropriate safety buffers when considering the financial returns of any sites purchased.

Stepping back, however, the demographics for over 75 year olds still look very strong, with a large gap between the number of people retiring over the coming years and the number of retirement units and care facilities available to them.

Additionally, any land purchase now would see units being sold some two to three years from now, by which time the residential property market should have stabilised.

Australian Royal Commission

From a sector perspective, we are watching the Australian Royal Commission into Aged Care Quality and Safety closely. Hearings started in January and there have already been a number of unsavoury stories. We expect more of these as providers are questioned as to failures in their facilities.

As a board we place a high degree of emphasis on clinical quality and quality outcomes for residents. We have a dedicated Clinical Governance Committee and monitor quality through a variety of means including: independent external audit results, our own internal clinical audit programme, annual resident satisfaction survey results, quarterly friends and family feedback sessions at each care centre, the formal complaints system, and lastly visits by senior managers and directors to villages and care centres.

We plan to continue to lift the quality of our care over time and will look to the findings of the Australian Royal Commission for any learnings we can apply.

Summerset's place in the community

Last year I commented that we were planning to put an increased focus on environmental sustainability and that we were in the early stages of this journey. I am pleased to be able to tell you this year that we have made tangible steps in this space.

Summerset is now officially a carbon neutral company.

We have become CEMARS certified, the first operator in the retirement village and aged care sector to do so. This involves the measurement of carbon emissions attributable to our activities, including that of our residents. We have reduction targets set as well as plans on how we'll achieve these. In our first year we have seen reductions in emission intensity.

We are currently offsetting our carbons through the well-known CarbonZero programme, run by LandCare Research.

Over time we will deepen our involvement in this space with dedicated focus on materials and other supplies as well as operational impacts. Sustainability is becoming embedded in the Summerset business proposition.

Looking ahead

Looking ahead our business is very well positioned for the coming years. Our investment in the business over the last few years provides stability and optionality. The investment has included continual improvements in people capability, our staff employment offer, systems and processes, enhanced village designs, and a stronger brand and service offering.

We have leading resident satisfaction results, top-quartile staff engagement, solid earnings and cashflow growth, and a strong balance sheet. We are in a very good position to not only continue our growth but to meet the increasing demand for the quality lifestyle we offer.

Summerset will continue to work hard to deliver high quality retirement living for its residents and subsequent financial results that benefit our investors, residents and staff.

Thank you for your continued support.

CEO's Address

Overall we are pleased with our performance through 2018. Underlying profit grew 21% from 2017 to 2018. From 2011 to 2017 we have had a 47% compound annual growth rate for underlying profit. This high rate of growth reflects good performance in the different parts of our business. The growth rate from 2017 to 2018 reflects a maturing of the business with growth in profits moving closer to our underlying growth in retirement units. We have expected this for some time and believe this year's profit increase is more reflective of our path in the coming years.

Last year we purchased five new sites and this year we have announced two more sites. We are likely to announce other new village sites through 2019. As Rob has indicated we currently see broadacre sites (by which I mean generally sites of 5-6ha or greater containing predominately single level villas) as more attractive from a financial return, financial risk and demand perspective currently. We will return to purchasing more urban sites for mid to high rise villages at some point as they become more attractive. This will probably require a readjustment of land and residential prices in markets such as Auckland (where we currently see land prices being asked as too high) to reflect the weaker residential market and pressure in the construction market.

We have purchased a greater number of sites over the last 18 months than typical. The sites have been relatively low cost and represent a strong growth path for the business. The areas we have purchased land in have good underlying demand and attractive economic conditions. Holding a large portfolio of sites also provides us with options in respect of obtaining resource consents and starting construction programmes.

We are very happy with the underlying performance of our development and construction business and were pleased to record a development margin of 33% last year.

Margins have, however, been assisted to some extent by rising property prices. We expect our margins to moderate to the 20% to 25% range over time. These margins still represent strongly value accretive projects for shareholders.

Our construction business is performing well in the face of considerable pressure within the Auckland market. Last year we indicated we had been able to bring a number of high quality people into the construction business. We are seeing the benefits of this with continued improvements in quality management on sites, our health and safety statistics, programming and planning, and the use of technology to assist smooth operation of this business.

Sales results for the business were pleasing in 2018. Since that time we have seen some slowing of settlements in Auckland and Christchurch. Since the appointment of Fay French as our GM Sales we have been working on a number of improvements to our sales and marketing approach. We have introduced increased training for sales managers, mystery shopping of our own sites to ensure quality control and customer service standards, improved measurement and reporting of inquiry numbers, conversion rates, and key sales statistics.

We have an enhanced incentive structure for sales managers, more responsive marketing, and an increased focus on engaging with local communities. In response to the slowing in settlement

times we have put increased focus and emphasis on marketing and sales conversion in the Auckland and Christchurch markets.

In our care business we completed the rollout of the VCare resident management system last year in all of our care centres. This was a large project and large investment for us. We are now on a strong footing from a systems perspective and feedback from staff on the ground using the system is positive.

It's very important to Summerset that we continue to lift our clinical performance in our care centres. We are, after all, looking after some of the most vulnerable people in our society, and we keep this front of mind at all times. The new VCare system allows us to track how well clinical processes are being followed as well as using it to look for areas where we can improve quality.

We are currently refreshing our medium term clinical strategy with the Clinical Governance Committee, Polypharmacy (that is the over prescribing of medicines) and how we interact with primary care services (that is GPs, pharmacists, physios) are examples of areas we will focus on.

It will come as no surprise that we are also focusing on the availability and capability of nurses in our villages. The country is currently short by around 1,500 nurses. The current government is looking at bringing nurses back onto the long term skill shortage list. Frankly, it is critical for the aged care sector and New Zealand more generally that they do so.

There are a number of other areas which we are working on to lift attractiveness of Summerset as an employer and to develop the capability of our nurses. These include continuing to move nurse wages upwards to match DHB increases, looking to provide greater development and training opportunities and improving communication with nurses throughout the business.

At Summerset our purpose is to bring the best of life to our residents. The acid test of whether we are doing well in this regard is our annual satisfaction survey. Our 2018 results continued the trend of strong satisfaction levels with village resident satisfaction at 95% (97% in 2017) and care resident satisfaction at 97% (the same as in 2017).

Maintaining these leading results requires ongoing work. We have worked on a number of areas in 2018 to keep ahead of the pack. These included continuing to lift property standards, taking the first steps on our sustainability journey for the good of the environment, and the introduction of new food providers across our villages, including in-house catering at our Levin and Paraparaumu villages.

We also welcomed our first residents to new villages in Casebrook, Christchurch and Rototuna, Hamilton in 2018 and look forward to seeing the main buildings completed at both villages this year. Casebrook and Rototuna will both have a memory care centre completed as part of their main building. This is designed specifically for people living with dementia and will be ready in the next 12 months. These MBs have been built to new design standards, and we're expecting completion end of this year/early next year.

Our staff

Like any business, we are nothing without our staff. We now have over 1,400 staff and I meet many of them through my annual visits to villages.

Last year our staff engagement score increased to 69% from 67% in 2017. This is up from 53% in 2015. This represents a top quartile result for the Aon Hewitt engagement survey which includes around 700 companies from Australia and New Zealand. The aged care sector average in Australia is 51% so these are results we are very proud of. I would note also that the concept of engagement is not intuitive. Engagement does not measure satisfaction. This is a very different concept. Engagement measures staff who are actively motivated in their work, promote Summerset to others and are not considering leaving.

In 2018 we again increased the staff benefits we provide – these now include free health insurance, funeral cover, travel voucher prizes, discounts at a range of Summerset suppliers, a free staff share scheme, sick leave from the first day of employment, a day of leave on each staff member's birthday, contributions to staff charity fundraising efforts and various types of special leave, including domestic abuse leave.

In the future we see learning and development as another benefit we can provide for our staff, and we are planning this work currently.

We have continued our good progress in health and safety with reductions in Reportable Injury Frequency Rates (RIFR) and Lost-Time Injury Frequency Rates (LTIFR) for the third year running.

We introduced compulsory gloves and glasses on all Summerset construction sites this year, and completed a pilot of improved training on moving residents in our care centres.

In 2018 we were accepted into the ACC Accredited Employers Programme. This allows us to manage our own workplace injury claims and we are now working with the specialist firm WorkAon to manage assistance for any staff injured at work.

Summerset's place in the community

At Summerset we also believe in playing a positive role in the communities we are a part of.

This year we became the major sponsor of two important organisations that our residents are affiliated with and that benefit older people in New Zealand.

We partnered with Dementia New Zealand for three years, to provide more research and education on this growing disease while reducing the stigma of having it. Dementia NZ is the umbrella organisation for a range of community based affiliates and currently covers around 70% of New Zealand.

We also partnered with Bowls New Zealand and New Zealand Indoor Bowls, in 2018, helping players come together to enjoy these popular sports.

We hold relationships with other organisations that our residents are passionate about including Wellington Free Ambulance, the Orokonui Eco-sanctuary in Dunedin, sports tournaments and

health conferences around the country, as well as the many local fundraising events involving our residents and staff.

Looking forward

Overall I believe the business is in good shape to continue to meet the challenges of growth while continuing to lift our experience for residents and staff.

As always, thank you for your continued support of this business.

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ABOUT SUMMERSET

- Summerset is one of the leading operators and developers of retirement villages in New Zealand, with 25 villages completed or in development across the country.
- Summerset has 11 sites for development in Milldale (Auckland), Parnell (Auckland), St Johns (Auckland), Rangiora (Canterbury), Waikanae (Kapiti Coast), Blenheim (Marlborough), Te Awa (Napier), Pohutukawa Place (New Plymouth), Papamoa (Tauranga), Kenepuru (Wellington) and Lower Hutt (Wellington), bringing the total number of sites to 36.
- It provides a range of living options and care services to more than 5,000 residents.
- New Zealand's largest builder of retirement units in 2018.
- The Summerset Group has villages in Aotea, Avonhead, Casebrook, Dunedin, Ellerslie, Hamilton, Hastings, Havelock North, Hobsonville, Karaka, Katikati, Levin, Manukau, Napier, Nelson, New Plymouth, Palmerston North, Paraparaumu, Richmond, Rototuna, Taupo, Trentham, Wanganui, Warkworth and Wigram.