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Aveo Records Strong Performance in FY17 and Introduces New Initiatives

Australia's leading owner, operator and manager of retirement communities, Aveo Group (ASX: AOG) today released its 2017 financial year results. It also announced a number of key initiatives to further simplify its contracts and provide increased optionality and services for its customers.

Financial results

For the year to 30 June 2017 (FY17), Aveo Group recorded an underlying profit after tax of \$108.4 million, up 22% on FY16. This result was driven by a lift in earnings from both its Retirement Established Business and its development activities with 266 new retirement units delivered during the year. Aveo recorded sales of 1,242 retirement units in FY17, up from 799 in FY16.

Aveo Group Chief Executive Officer Geoff Grady said, "The strong performance of the core Aveo retirement business was strengthened by solid contributions from the Freedom and RVG acquisitions."

"Our focus on asset improvement was reflected in high numbers of unit buyback purchases, refurbishments, and subsequent buyback sales."

"The expansion of our innovative Freedom product offering to selected Aveo communities continued in FY17, driven by resident demand for increased levels of care services."

Key financial highlights for FY17 include:

- statutory profit after tax of \$252.8 million, up 118%;
- underlying profit after tax and non-controlling interest up 22% to \$108.4 million;
- earnings per stapled security (EPS) on underlying profit after tax and non-controlling interest up 11% to 18.9 cents, despite the impact of the additional equity raised to fund the RVG and Freedom acquisitions;
- funds from operations (FFO) of \$163.9 million (\$141.3 million in FY16), largely driven by lower capitalised interest included in cost of goods sold and higher income tax expense; and
- net tangible assets per stapled security of \$3.37, up 12% from 30 June 2016.

Retirement assets now comprise 87% of total divisional assets, as further investment is made in retirement development and the non-retirement assets are progressively sold down.

Net tangible assets per security increased to \$3.37, lifted by revaluation amounts relating to:

- Gain on acquisition of RVG;
- Retirement asset valuation increase as improved contract terms begin to be recognised across the portfolio; and
- Gasworks valuation increase in line with a new external valuation.

About Aveo

"We will grow with older Australians by inspiring greater living choices."

Aveo is a leading and trusted owner, operator and manager of retirement communities across Australia. Aveo's philosophy is underpinned by a commitment to grow with older Australians by inspiring greater living choices. We currently do so for 13,000 residents in 90 retirement communities across Australia. Aveo also manages and develops a diversified \$356 million property portfolio. Over 30 years, Aveo's portfolio has grown to one that encompasses retirement, residential, commercial, industrial and mixed-use property assets. Together these communities define how hundreds of thousands of people in Australia live, work, retire and invest.

Issued by Aveo Group (ASX:AOG) comprising Aveo Group Limited ABN 28 010 729 950 and Aveo Funds Management Limited ABN 17 089 800 082, AFSL No. 222273 as Responsible Entity for the Aveo Group Trust ARSN 099 648 754.

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Retirement sales

Aveo recorded sales volumes of 1,242 units, up 55% from FY16. Development sales increased as a proportion of total sales, in line with increased delivery volumes.

Retirement Established Business

Driven by a combination of higher volumes and higher sales prices, revenues from Aveo's Retirement Established Business increased 37% in FY17 to \$204.1 million and profit contribution increased 26% to \$73.8 million.

Sales volumes increased 37% to 1,008 units, whilst the average transaction price point increased 25% to \$358,000.

An improved performance in the legacy Aveo business was supplemented by additional contributions from the RVG and Freedom assets. The net DMF/CG¹ contribution increased 85% through a combination of both higher sales volumes and higher DMF/CG amounts per transaction.

Buyback sales revenues increased substantially as the higher levels of buyback stock acquired as part of the active asset improvement program were sold to incoming residents.

Retirement Development

Aveo's Retirement Development business successfully delivered 266 new units as major developments in FY17. The sale of a further 80 higher margin minor developments supplemented the profit contribution from delivery of traditional development units.

Construction for the delivery of 506 new units as major developments in FY18 is proceeding as scheduled.

Aveo now has a new target to deliver 180 minor developments per annum relating to the reconfiguration and redevelopment of Freedom communities to allow the continued roll out of the Freedom product, comprising 110 Freedom conversion development units and 70 Freedom legacy development units.

Retirement Care and Support Services

Aged care facilities remain the main profit contributor to this segment's results. This is expected to continue in FY18 and beyond, particularly with the opening of the new Durack facility in July 2017.

Construction of the Newstead integrated retirement community development, incorporating Aveo's next aged care facility, is well progressed. The development is scheduled for delivery in FY18.

Non-Retirement

The profit contribution from Aveo's Non-Retirement activities increased by 14% to \$62.7 million. Increases in higher margin land lot sales offset the impact of having only a small residual balance of built product sales continue into FY17 from FY16. Land sales contracts on hand remain high at \$160 million.

The Gasworks, Newstead, office and retail complex was independently valued at \$180.0 million as at 30 June 2017.

Non-retirement assets have reduced to only 13% of total assets.

Capital management

Aveo successfully refinanced its syndicated facility to July 2020 and increased total limits by \$75 million to \$632 million.

Debt remains unhedged, whilst reported gearing remains within the target range of 10% - 20% at 16.9%.

An on market buyback for up to 54.3 million securities has been announced. The buyback can commence from 17 August 2017. Aveo's intention is to fund the buyback from excess operational cash flows and non-retirement asset sales, including the potential sale of Gasworks.

¹ Deferred management fees and share of capital gains.

Outlook

Aveo's strategy to position itself as Australia's leading pure retirement group that is responsive to the increasing needs and wants of Australian retirees underpins its solid performance.

The strong sales momentum of the business across FY17 has been impacted in the short term by the media attention on Aveo and the retirement sector more generally over recent months. Inquiry rates in July were approximately 60% of those experienced in the same period last year but are now increasing. The quality of inquiry has actually improved, as enquiries by informed customers are enabling genuinely interested buyers to progress to meetings with sales consultants.

The introduction of the new resident contract initiatives will reinforce Aveo's position as a market leader in offering certainty, at both the beginning, and the end of a resident's stay.

Aveo's FY18 financial guidance:

- FY18 EPS guidance is for 20.4 cents per security (cps), 7.9% higher than the 18.9 cps delivered in FY17 (Aveo previously targeted 7.5% FY18 EPS growth guidance on a lower FY17 EPS target of 18.3 cps); and
- Aveo remains on track to achieve its FY18 retirement return on asset target of 7.5% – 8.0%.

Aveo is targeting a full year distribution amount in the range of 40% - 60% of underlying profit.

A further update on FY18 trading and distribution will be provided at the Aveo AGM in November.

Initiatives

Having listened to the needs of its consumers, Aveo is today announcing:

- As a member of its leadership committee, Aveo has committed to all eight resolutions adopted by our peak industry body, the Property Council of Australia's Retirement Living Council. Those resolutions were adopted to raise standards across the industry;
- Aveo has improved and strengthened its own complaint and incident handling procedures including a requirement for independent mediation;
- Aveo is moving to simplify our contracts further. Our Aveo Way resident contract, invented out of consumer research, is already a market leader in terms of simplicity and certainty. But we can do better and we've resolved to simplify both the Aveo Way and Freedom contracts further within the next 12 months; and
- Aveo announces this morning new certainty promises to incoming residents under both the Aveo Way and Freedom resident contracts: money back guarantees and shortened buyback periods, in excess of most legislative requirements.

Aveo CEO Geoff Grady commented: "Since moving to a retirement only future in 2014, Aveo has sought to address the emerging demands of Australian retirees. Those demands are very different from what they've been in the past."

"Over the past four years we have been at the forefront of innovation in retirement product and service delivery, to our existing and future residents. The consumer response to what we have delivered to date has been strong and it underwrites our strong performance."

"We know there is a lot of discussion in the market at the moment about retirement living and about Aveo generally. We understand people have concerns about the retirement and aged care industry. We acknowledge that some residents have been confused by their contracts. And we are genuinely distressed when we fall short of the standards our consumers expect of us. We know that some of our consumers feel that we have let them down."

"Aveo has a focus on continual improvement and on meeting the standards our consumers expect of us. We've listened carefully to the public discussion about us."

“Our key commitments to consumers have not and will not change – enhanced freedom of choice and quality of service delivery, in whatever form consumers desire it. Our focus is to address the increasingly complex wants and needs of Australian seniors, with innovative products and services that have not been available in the past.”

Details of these new initiatives are outlined in the appendix.

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NEW INITIATIVES

As a leader in the Australian retirement village sector, Aveo is at the forefront of innovation in both product offering and service delivery, to existing and future residents. This commitment to innovation is underpinned by the fact that increasingly, residents want to age-in-place, with access to a greater range of care and support services to meet a more complex range of aged care needs. Aveo Way Contract

The Commitment to an Eight Point Plan

At an industry level, Aveo is also actively engaged in and committed to the Retirement Living Council's 8-point plan to deliver greater transparency and higher standards across the industry.

RLC Commitment	Aveo Response
1. Support nationally consistent retirement village legislation	Aveo has signed an open letter in support of this commitment
2. Ensure there are transparent and easy-to-understand descriptions of entry pricing, ongoing service fees, reinstatement costs and fees and payments relating to departure in contracts, so residents have certainty about the costs associated with living in a retirement village	Aveo has committed to a further revision of its Aveo Way contract to meet or exceed these objectives and to produce a shorter and simpler contract
3. Encourage all potential residents to seek independent legal and financial advice before signing a contract, and support government initiatives to make this a compulsory requirement. We will also encourage potential residents to share information with family members and trusted advisers	89% of all Aveo's purchasers in FY17 were independently legally represented. Aveo has implemented a requirement that any parties not legally represented confirm in writing that they have made an informed choice to that effect. Aveo is also recommending to all new buyers that they obtain independent financial advice and discuss the proposed acquisition with their family
4. Improve training and professional support for village managers, sales people and other staff who engage directly with current and potential residents	Training program on dispute resolution already undertaken in FY17 and will be further expanded
5. Commit to improve industry village accreditation standards and coverage, and support government initiatives to make accreditation a mandatory requirement for operating a village	Aveo is already accredited under the Retirement Living Council "Lifemark" program
6. Commit to working with the Australian Retirement Village Residents Association to implement an industry Code of Conduct to set and maintain high standards about the marketing and operation of villages, as well as dispute management procedures for all operators and residents	Aveo has signed an open letter in support of this commitment and is already accredited under the Retirement Living Council "Lifemark" program
7. Commit to the establishment of an efficient and cost-effective government-backed independent dispute resolution process, such as an Ombudsman or Advocate, for disputes that are unable to be solved at a village level	Aveo has signed an open letter in support of this commitment
8. Maintain and strengthen the relationship between industry and the Australian Retirement Village Residents Association to make sure resident issues are clearly identified and addressed.	Aveo has signed an open letter in support of this commitment

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Aveo Way – further improvements

In 2014, Aveo introduced its new ‘Aveo Way’ contract to create a simpler and more certain contract regime for residents and their families. It is the first of its type in the industry and sets the market standard for simplicity and certainty.

The recent focus on Aveo and the broader retirement sector demonstrates that some residents and their families remain unclear on the dynamics of the contracts they have and the obligations under these contracts. Aveo recognises that more needs to be done to improve contract clarity. As such, Aveo is introducing a number of further enhancements to its Aveo Way contract:

- 6 months money back guarantee period will be extended permanently after 30 September 2017; and
- A six-month buyback guarantee will be extended to all states (not just NSW and Tasmania).

These benefits are available to all new buyers immediately.

Previous Resident Contracts	Aveo Way Resident Contract
✗ No money back guarantee	✓ Money back guarantee period six months
✗ Unlimited time period for unit to be available for resale upon resident departure	✓ Unit bought back by Aveo six months after resident departure
✗ Resident required to fund reinstatement cost of unit and potentially part of refurbishment upgrade cost	✓ No resident cost to fund any unit reinstatement or refurbishment work upon departure
✗ Resident responsible for sales commission cost	✓ No sales commission cost if Aveo Real Estate is the sales agent
✗ No additional benefits relating to transition to a higher care environment	✓ 10% discount on purchase price for a new Freedom unit or immediate release of unit equity for payment of RAD in a co-located Aveo RACF
✗ Quantum of funds received and timing of receipt of those funds upon resident departure is uncertain	✓ Can guarantee upfront the minimum funds to be repaid and the maximum period that will take

Freedom contract – further improvements

Aveo is also improving its Freedom contract with:

- A new 60-day money back guarantee; and
- A 12-month buyback guarantee to be implemented in all states.

These benefits are available to all new buyers immediately.

Previous Resident Contracts	Freedom Resident Contract
✗ No assistance with RACF transfer / RAD payments	✓ Refund net equity (entry price less accrued DMF) 60 days after transfer where Aveo has recommended transfer to RACF
✗ No money back guarantee	✓ Money back guarantee period 60 days
✗ Resident required to fund reinstatement cost of unit and potentially part of refurbishment upgrade cost	✓ Aveo to fund any reinstatement or refurbishment work. Capital gain then calculated as exit price, less entry price, less Aveo upgrade cost
✗ Best case of 18 month buyback period	✓ Unit bought back by Aveo 12 months after resident departure for entry price less accrued DMF. Guarantee of no capital loss on unit price
✗ Quantum of funds received and timing of receipt of those funds upon resident departure is uncertain	✓ Can guarantee upfront the minimum funds to be repaid and the maximum period that will take

Care Services – Freedom Aged Care

Aveo's expansion of its Freedom aged care offering has been of increasing interest. In making these transitions at 12 existing communities, Aveo has been responsive to demand from existing residents for increasing levels of care services.

Freedom allows residents who would have previously needed to move to an aged care facility, to instead age in place with their partner and community of friends.

No resident is compelled to move to a Freedom unit or take up the Freedom offering if already a resident at an existing Aveo community that is introducing Freedom.

Freedom is an innovative product which fills a niche gap in the market by providing an alternative accommodation option for elderly Australians to choose, and simply increases the levels of choice available to consumers in making their care needs decisions.

Aveo’s commitment to raising standards

Independently Raising Process Standards	Raising Standards with Retirement Living Council
<ul style="list-style-type: none"> • Management review of complaint and incident management processes, including benchmarking against Commonwealth Ombudsman better practice guidelines completed in July • Care governance review of the cases featured on Four Corners completed in July • Approval and implementation of a revised Complaint Management Policy, replacing each divisional policy with a common enterprise-wide framework • Approval and implementation of Resident Incident and Non-Resident Incident Management Policies, with both governance documents being combined into a single handbook • All policies to include a commitment to independent mediation if management can’t resolve the issues 	<ul style="list-style-type: none"> • Retirement village owners and operators have agreed on a policy platform to deliver higher standards, clearer and simpler information about costs and contracts, and an independent umpire to resolve disputes in how their communities are run and a greater say in its running • More than 20 operators met with retirement village resident association leaders from around the country in Melbourne in late July to hear resident feedback and work on common issues • As a result of the discussions, the retirement village industry has committed to an eight point plan that is designed to lead to greater transparency and higher standards across the industry

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