retire australia

RetireAustralia Overview

- RetireAustralia, founded in 2005, is the largest privately owned operation of retirement villages in Australia.
- Infratil Limited and New Zealand Superannuation Fund are the shareholders of RetireAustralia through an investment managed by H.R.L. Morrison & Co.
- RetireAustralia owns and operates 28 retirement villages across New South Wales, Queensland and South Australia which contain 3,700 villas and apartments in metropolitan and regional locations.
- RetireAustralia has a current future development pipeline of over 500 villas and apartments.
- Approximately 5,100 Australians currently call a RetireAustralia village home and there is little doubt that demand for quality offerings in the retirement sector will continue.
- RetireAustralia's villages house independent retirees who are looking for maintenance-free living within secure, active communities, as well as catering for retirees requiring a greater level of services, including care.

RetireAustralia's philosophy "Exactly right for you" is about understanding that retirees want choice.

RetireAustralia Facts at a Glance

The largest privately owned retirement village operator in Australia.

Founded in 2005.

Funded by Infratil Limited and New Zealand Superannuation Fund.

Assets in excess of $1.3 billion.

Owns 28 villages across three States.

Operates 3,700+ villas / apartments.

Over 500 villas / apartments to be developed.

Serves 5,100+ residents.

Looking Forward

- Further strengthen core business
- Development
  - Brownfield
  - Greenfield
- Care
- Pricing innovation
- Additional services
- Industry consolidation

Experienced and Stable Team

Tim Russell – Chief Executive Officer

- Founded RetireAustralia (formerly Meridien Retirement Living) in 2005
- Has remained as CEO through various ownership structures to present.
- Previous professional experience includes investment banking, funds management and corporate M&A at FKP, Bankers Trust and Graham & Company.
- Founding member of the Retirement Living Council (industry body).

Mark Taylor – Chief Financial Officer

- Joined RetireAustralia as CFO in 2006 (formerly Meridien)
- 20+ years experience in finance, tax and commercial matters with KPMG, FKP and Lend Lease.

Matt Row – Chief Operating Officer

- Joined RetireAustralia in 2011
- 15 years corporate management experience in property, construction and vocational training industries.

Glen Brown – Head of Development Acquisitions

- Joined RetireAustralia in 2006 (formerly Meridien)
- 26 years experience in finance, commercial and retirement, including KPMG, FKP, Perpetual Trustees Australia.

Chris Webb – General Manager Finance

- Joined RetireAustralia in 2014
- 17 years experience includes investment banking, funds management and corporate strategy.

Mick Tanna – Senior Development Manager

Joined RetireAustralia in 2014

26 years experience on major project delivery in Australia, Middle East and South East Asia.

Tammie Carter – General Manager Sales & Marketing

- Joined RetireAustralia upon acquisition of the Gannon Group in 2006.
- 15 years of direct sales and sales management experience in the retirement village sector.

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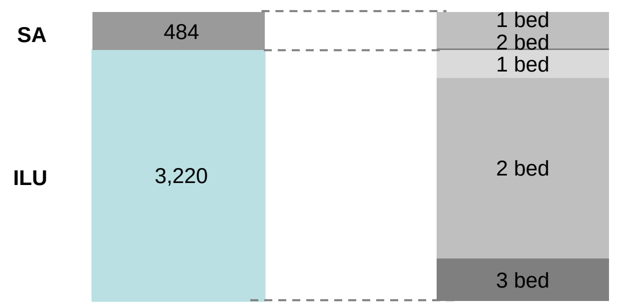
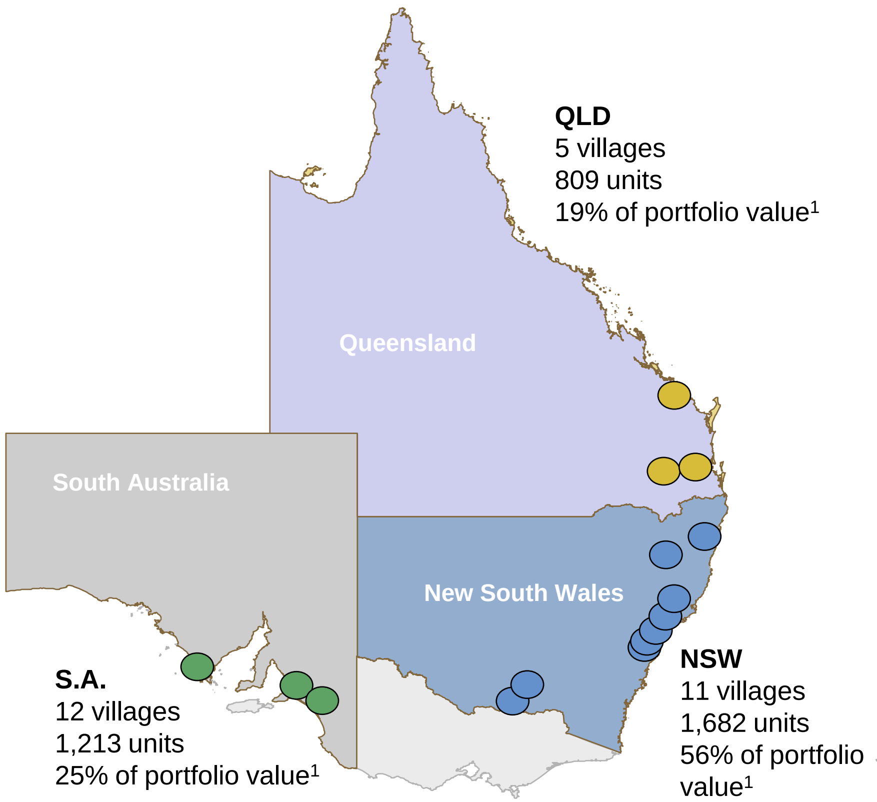
Portfolio

- Diversified, high-quality portfolio of substantial scale which is difficult to replicate
- Fully integrated retirement village platform
- 28 villages comprising 3,704 existing units
- 500+ units in brownfield development pipeline
- Geographically diversified portfolio with a focus on metropolitan Sydney, Adelaide, Brisbane and the NSW Central Coast
- Broad mix of accommodation types and price points, complemented by a targeted marketing strategy



Accommodation Type

Breakdown of Portfolio Value



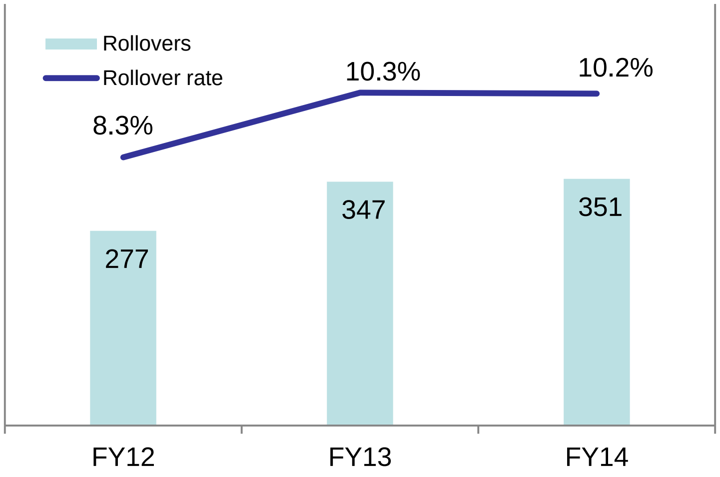
[1] Contribution by state to total current market value of existing units

Key Metrics

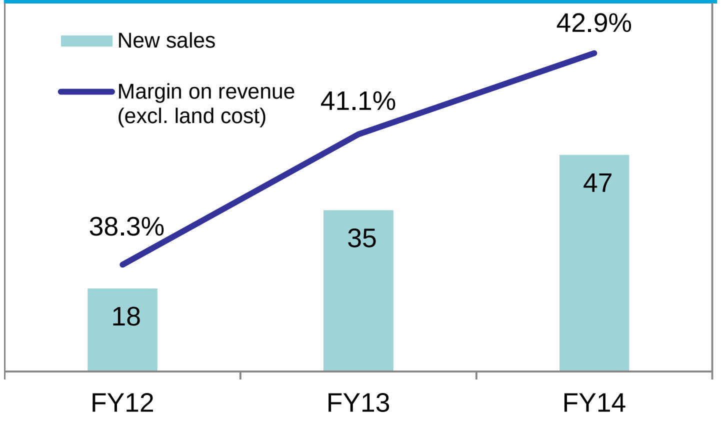
- 3,704 existing units: 3,220 Independent Living Units (ILUs); 484 Serviced Apartments (SAs)
- $365.2M embedded collect [1]: DMF $276.6M; capital gains $88.6M
- $101K average collect per rollover (FY14)
- Average current valuation: ILUs $387K; SAs $187K
- Occupancy[2]: 95.6%
- Aged stock > 12 months: < 1% of total units
- Generally villages are at or nearing maturity
  - 19 yrs: average age of villages
  - 81 yrs: average age of existing residents
  - 77 yrs: average age of residents entering last 3 yrs
  - 8.4 yrs / 4.2 yrs: average tenure existing ILU/SA residents
- Broad mix of contracts as a result of growth by acquisition. Standardisation process ~ 50% complete

[1] RetireAustralia's contractual entitlement to DMF and capital gains as at 31 December 2014
[2] either physically occupied or subject to a sale contract.
[3] all data as at 31 December 2014 unless otherwise stated

Resale track record



Development track record



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Opportunities for Growth

Further strengthen core business

Strong, efficient, integrated operating platform which is cost-effective and scalable

- Direct sales and marketing costs fully recovered
- Corporate overhead ~ $1,400 per unit per annum

Maintain and grow strong cash returns from core business

- Ensure consistent, quality product and customer service
- Capture upside in rollovers as DMF book further matures
- Capture improved contract terms as legacy contracts roll off
- Capture property price growth
- Grow existing services offering
- Continue to deliver strong brownfield development margins
- Maintain industry leading overheads

Brownfield development

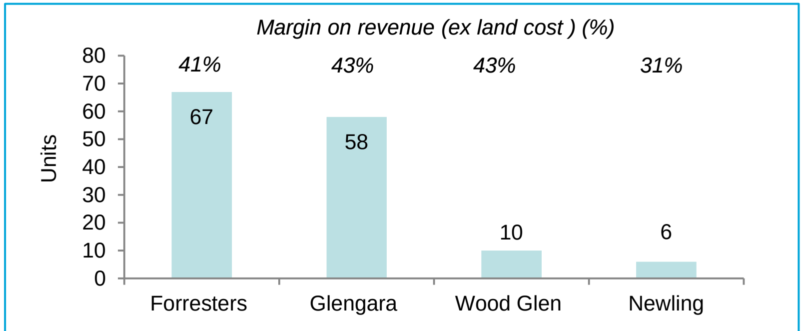
- Substantial brownfield development pipeline of 500+ units
  - Predominantly high margin, relatively low-risk ILUs. Flexibility to include care, independent living apartments, allied health, where appropriate.

Site	Location	ILUs	SAs	2H15	FY16	FY17	FY18	FY19-20
Forresters Beach	NSW, Central Coast	169						
Glengara	NSW, Central Coast	132	84					
Wood Glen	NSW, Central Coast	59						
Tarragal Glen	NSW, Central Coast	0	16					
Newling Gardens	Armidale, NSW	55						
Tea Tree Gardens	Adelaide, Sth. Aust.	2						
Total		**417**	**100**					

  - Equates to approximately $130M in capital expenditure in this period.

- Expect high development margins to continue
  - Proven product
  - High price points
  - Predictable build costs, particularly at Central Coast due to strong internal construction capability
  - Ability to leverage existing village infrastructure

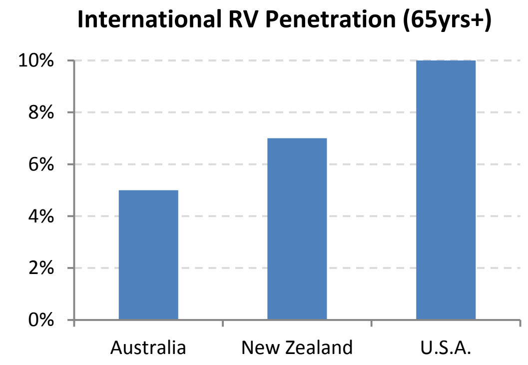
Development track record



Greenfield development

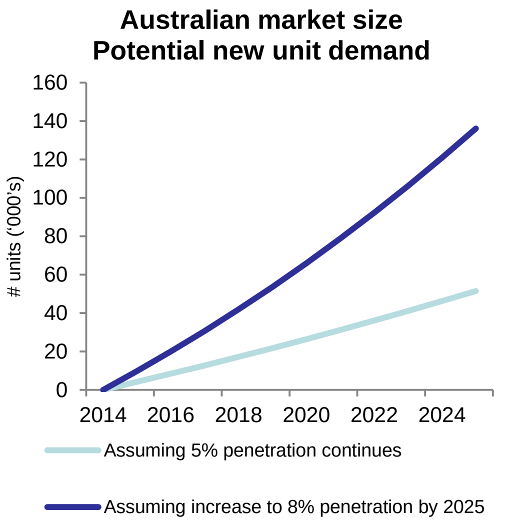
Favourable demographic tail winds and low industry penetration support greenfield development

- Rapidly ageing population underpins demand for retirement villages. Australia's 85+ population to grow at 4.7% pa to 2044 vs total population at ~1%. Equates to extra 20K – 65K 85+ year olds per annum over that period.
- Australian market underpenetrated compared to international markets. Increased penetration levels likely, driven by improved awareness, lifestyle and health benefits, improved service offering and cost of living advantages.
- Even at current ~ 5% penetration, the sector will require ~51,000 additional units (~ 5,000 p.a.) by 2025 at estimated capital in excess of $1.5 billion pa



Supply is constrained

- Supply of new retirement village units particularly in in-fill locations has been, and will continue to be, constrained due to competition for sites and the multitude of planning regimes and governing bodies responsible for approvals.
- Large competitors have also been constrained by organisational structure, lack of focus on retirement businesses and access to capital.
- The largest 4 operators in Australia represent 25% of the market but between them have delivered only approximately 1500 new units over the last 3 years.



Greenfield development (cont'd)

Potential to pursue additional development growth by opportunistically sourcing greenfield development sites

- People want to retire close to where they have lived the majority of their lives
- Innovation is required in securing prime development locations and keeping product relevant to changing consumer needs
- RA is currently progressing negotiations on a number of in-fill sites at present

Adding Care to the Mix

- The current RetireAustralia portfolio has a very limited care offering. This is typical of the Australian industry which was borne out of property developers—consequently more focus on the hard facilities of villages, and less on care elements (e.g. continuum of care)
- In contrast, the NZ industry has been driven more by pure play retirement players—consequently a greater emphasis on care elements and the continuum of care model
- Potential to provide continuum of care to allow older Australians to age in place:
  - Enhance the customer proposition toward care and away from property
  - Drive demand from older customers
- Care is a broad concept and ranges from Home Care (filling the low-care aged care gap) right through to High-Care aged care - the strategy needs to be thought through carefully
- RA will be measured in its approach

Retaining the client relationship is key !

Pricing Innovation

Benefits of the DMF Model

- DMF model evolved over 30 years ago, led by the Not For Profit sector. Now largely entrenched in the Australian and NZ markets
- Essentially enables asset-rich, income-poor retirees to buy now, pay later
- Allows purchasers an equivalent or superior real estate offering at a lesser price PLUS all the added services and benefits a village can offer
- Compensates operator for significant investment in community amenities

Future improvements to the Model

- Build in flexibility and choice for the consumer. Customer is King!
  - Future residents likely to have increased wealth outside family home
  - Residents will be living longer and needing capacity to buy additional services
- Provide more certainty to residents … Australia potentially trending to NZ model
- Unlock value via “reverse mortgage” or similar

Additional services

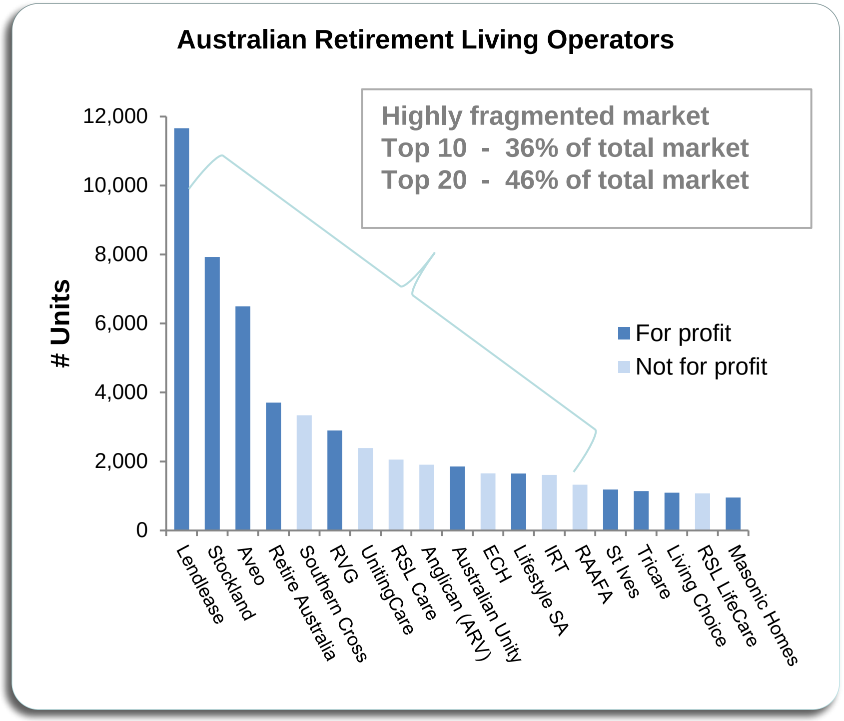
- RA is currently gate keeper to 5,200 consumers of services with an average age of 81yrs
- Presents an opportunity to grow service offering to:
  - add additional revenue streams
  - refocus the decision to enter a retirement village more towards services and away from being purely a property decision
  - create a point of difference to competitors i.e. partly defensive
- Provision of additional services at “bulk” pricing enhances lifestyle and the attractiveness of the village

Food services	• Provision of in-home dining and pre-prepared meals
Telecommunications and internet	• RetireAustralia has entered into an arrangement with Frontier Networks for the provision of internet and telecommunication services in response to increased internet adoption and online participation by retirees • The product will enable residents to access high-speed broadband in their homes and deliver 24-hour health monitoring services, social connectivity and entertainment content
Other	• Trialling initiatives with a view to a roll-out, ie move assist; car share; health insurance; concierge

Industry consolidation

- **Australian retirement industry is highly fragmented**
  - Long tail of small operators and not-for-profits
  - Top two operators are subsidiaries of diversified property companies; third operator is converting from diversified property into retirement pure-play
  - Opportunity for a well-capitalised sector specialist to lead industry consolidation

- **A range of options that could be considered by RetireAustralia**
  - Incremental additions – long tail
  - Material bolt-ons – where appropriate
  - Preference for brownfield options and portfolio fit
  - Smaller assets can often be acquired on attractive terms (eg Newling Gardens – 5 year cash payback)
  - Shareholder discipline to capital deployment



Risks

Risk	Description	Commentary
Exposure to house price growth	• Business model tied to the performance of the residential property market	• Retirement less volatile than residential. Generally a needs-based purchase decision. • RA currently less exposed to HPI than NZ counterparts because RA takes a smaller share of capital gains
Inability to raise development rate	• Failure to develop current pipeline to plan and/or replenish pipeline with new greenfield / brownfield options	• RA already controls brownfield pipeline in excess of 500 units • RA currently in discussions with a number of partners over additional greenfield sites • Board capability bolstered with development experience (Peter Spira)
Inability to achieve development margins	• RA unable to deliver future developments at forecast margins	• Recently hired an experienced medium-density development manager • Board capability bolstered with development experience (Peter Spira) • Proactive approach to greenfield risk management
Reduction in economic benefit under DMF contracts	• Proportion of DMF captured under resident contract falls over time	• DMF model is well established in Australia, and generally less aggressive than NZ, and Ryman are successfully selling NZ model in Australia • A large Australian competitor has also started moving to NZ type model • Ability to offer additional services and facilities will continue to allow RA to preserve and even enhance price points
Regulatory changes	• Regulatory changes could impose higher compliance costs on RA or require changes in the contract with residents	• Regulation largely state-based and borne out of Consumer Law • DMF model largely enshrined in current legislation • Expect regulatory changes to continue focus on promoting consistency of resident rights and obligations through their contract • RA and other operators are moving to standardised contracts (self-regulation) • Retirement industry is represented by the Retirement Living Council, which plays a key role in interfacing with regulators

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Conclusion

- Strong demographic tail winds
- Room to enhance existing business
- Multiple opportunities for growth – execution is the key !
- Capable, experienced, management team
- Strongly capitalised, supportive owners
- RA provides a solid base from which to deploy further capital in the sector

RA must meet the changing needs of its customers over time

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