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Aveo Group Delivers Record Retirement Result in FY15

- Underlying net profit guidance for FY16 of over $80 million, resulting in at least a 45% increase on FY15
- On track to meet FY16 and FY18 strategic plan targets

The pure retirement strategy of Australia's leading owner, operator and manager of retirement communities, Aveo Group, has enabled it to deliver a record retirement result in FY15.

Aveo delivered an underlying net profit after tax in FY15 of $54.7 million, an increase of 30% on the FY14 result. This was driven by record total retirement unit sales of 721 for the year.

Aveo Group Chief Executive Officer Geoff Grady said: "Our strong financial results in FY15 and record retirement business performance are a direct consequence of the pure retirement strategy that we launched in mid-2013. Our non-retirement asset sales are progressing well and acquisitions continue to expand the retirement development pipeline. We are on track to achieve our stated FY16 and FY18 return on retirement assets targets of 6.0% - 6.5% and 7.5% - 8.0% respectively."

"Heading into FY16, we have strong retirement sales momentum, a pipeline of 182 new units scheduled for delivery during the year and increasing care and support services across the entire retirement portfolio. As a consequence, we are providing FY16 underlying profit after tax guidance of over $80 million, a 45% increase on our FY15 result, and a full year distribution of 8 cents per security, representing a 60% increase on the FY15 distribution of 5 cents per security."

Key financial highlights for the year were:

- Total Retirement contribution of $53.0 million, up 18% on the previous financial year;
- Underlying earnings per security of 10.9 cents, up 15%;
- Funds from operations up 88% to $73.9 million / per security of 14.8 cents, up 66%;
- Distribution of five cents per security, up 25% on FY14;
- Net assets of $1.5 billion, up 5%;
- Net tangible assets per security of $2.85, up 3%; and
- Gearing of 13.8%, down 2% on FY14 and at the lower end of Aveo's target range.

Retirement Established Business produces record returns

Driven by higher margins, revenues from Aveo's Retirement Established Business increased 11% in FY15 and profit contribution increased 12% to $48.3 million. The average margin per transaction increased 11% to $83,000, reflecting the benefits of the Group's resident contract improvement program.

The strong sales momentum has continued into FY16, with sales now transacting under Aveo's new standard '*Aveo Way'* contract. In FY16, Aveo will continue to focus on sustainable unit price growth.

Aveo successfully trialled the new *Aveo Way* resident contract in the first half of FY15, and subsequently introduced it as the standard resident contract. The contract offers certainty and simplicity to residents and improved terms for Aveo. Its rollout has had no adverse impact on sales rates or prices.

Retirement Development ramps up

Aveo's Retirement Development team delivered 62 new units in FY15, up from 23 in the previous year. Significantly, construction has commenced and is tracking to schedule on all six development projects that will deliver 182 new units in FY16:

- Clayfield, Queensland (66 units);
- Cleveland, Queensland (12 units);
- Durack, Queensland (40 units);
- Island Point, New South Wales (20 units);
- Mingarra, Victoria (14 units); and
- Peregian Springs, Queensland (30 units).

The Group's retirement development pipeline increased significantly during the year to 5,066 units, including the 2,500 units to be developed at the Springfield, Queensland, site. The Group expects to deliver 521 units from this pipeline in FY18, which will materially assist it achieving its return on retirement assets target in that year. Aveo is actively pursuing other acquisition opportunities for new development sites.

Retirement Care and Support Services transforms customer offer

Aveo is transforming its customer proposition, from one that has been focussed almost solely on property, to a more appealing combination for consumers, involving a selection of accommodation choices across a range of property types and price points, balanced with a selection of care and service needs, determined by the customer and delivered to the chosen form of accommodation. This will be a progressive change to Aveo's business model and culture over the long term, driven by an ageing and more discerning customer base with an increased desire for care and support services and a willingness to pay.

In FY15, Aveo has made a number of significant strides in its care strategy, including:

- Acquisition of 50% interests in two allied health businesses, which are being integrated into Aveo's village operations and will provide a full year's contribution in FY16;
- Lodgement of a development application for a new 131 bed aged care facility at Durack, to replace an existing 25 bed facility; and
- Establishing a new General Manager of Care role. An appointment has been made and the appointee will join Aveo in September 2015.

Non-Retirement

Aveo's sell-down of non-retirement assets is on target to achieve a less than 20% asset weighting by FY16 through the continuing sell-down of residential land lots and apartments. Current sales rates would see Rochedale sold down by FY18 and Point Cook and Peregian Springs sold down by FY19.

The Milton apartment development is on track for settlement in September 2015, with 92% of residential units pre-sold.

Residential land sales volumes improved 11% for the year, driving a slight increase in profit contribution to $33.1 million, despite the prior year including the development profit from Gasometer 1. Notwithstanding the sales volume increase, land contracts on hand at the end of the year increased by 10%.

Capital management

In FY15, Aveo terminated $300 million of interest rate hedges, reducing its weighted average borrowing cost to 4.0%, down significantly from 8.6% at June 2014.

Aveo's focus on asset returns means it remains on track to achieve its desired return on retirement assets and earnings quality targets by FY18. The proceeds from the realisation of $559 million of non-retirement assets will be allocated in line with the pure retirement strategy to maintain gearing within the target range of 10% - 20%. Options for the use of these proceeds include (in order of priority):

- ♦ Additional retirement development;
- ♦ Additional retirement asset acquisitions;
- ♦ On-market buyback of the Group's securities; and
- ♦ Further reduction in debt.

Outlook

Aveo made substantial progress with its pure retirement strategy in FY15 and the Group's transformation continues to accelerate.

Aveo's Retirement Established Business is continuing to perform well, underpinned by strong sales levels. The acceleration of retirement development is well progressed and on track to meet profit and unit delivery targets, and resident take-up of care and support services continues to grow.

Aveo's non-retirement assets continue to generate strong cash flows for the Group, which will continue to be recycled into retirement growth projects.

For FY16, Aveo is expecting an underlying profit after tax of over $80 million, resulting in at least a 45% increase on FY15, and is forecasting a full year distribution of 8 cents per security, up 60% on FY15 (there will be no interim distribution).

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Investor Contact:
David Hunt, Chief Financial Officer
T +61 2 9239 5526 | E david.hunt@aveo.com.au

Media Contact:
Justin Kirkwood,
T +61 2 9231 5600 | M +61 411 251 324 | E Justin@kirkwoods.com.au