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Aveo Group delivers FY16 targets
Announces acquisition of Retirement Villages Group and equity raising of $125 million

- **Underlying profit after tax increased 63% to $89.0 million**
- **Return on Retirement assets increased to 6.3%**

Australia's leading owner, operator and manager of retirement communities, Aveo Group (ASX: AOG), today released its FY16[1] results, a year in which it has delivered on all its stated targets at a strategic, financial and operating level.

Aveo delivered an underlying net profit after tax in FY16 of $89.0 million, an increase of 63% on the FY15[2] result. Assisted by the delivery of 182 new retirement units, the Group's Retirement EBITDA contribution increased by 62% to $79.9 million.

Aveo Group Chief Executive Officer Geoff Grady said: "This time last year we said that, on the back of strong Retirement sales momentum, a healthy pipeline of new Retirement developments and an increased care focus, we were targeting a return on retirement assets of 6.0% - 6.5%, underlying profit after tax of over $80 million and a full year distribution of 8 cents per security. We delivered on all these targets in FY16."

"The FY16 return on retirement assets was 6.3%. This is a significant step towards achieving our FY18 target of a 7.5% - 8.0% return.

"For the third consecutive year Retirement sales were a record, totalling 799 units in FY16, while the average DMF/CG amount per transaction increased 8% to $90,000. Portfolio turnover increased to 11.9% and was at the high end of the target range of 10% - 12%."

"At a strategic level, the acquisition of the remaining minority interest in Retirement Villages Group (*RVG*) will give Aveo full operational and strategic control over more than 3,400 units across Sydney and Melbourne", he said.

Key financial highlights for FY16 were:

- Statutory profit after tax doubled to $116.0 million
- Statutory earnings per security of 22.1 cents, up 91%
- Underlying earnings per security of 17.0 cents, up 56%;
- Funds from operations up 85% to $137.0 million and per security, up 77% to 26.2 cents;
- Distribution lifted 60% to eight cents per security
- Net assets of $1.66 billion, up 10%;
- Net tangible assets per security of $3.00, up 5%; and
- Reported gearing of 17.4%, versus 13.8% at 30 June 2015 and within Aveo's target range of 10% to 20%.

1 The twelve months ended 30 June 2016.
2 The twelve months ended 30 June 2015.

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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RVG Transaction and Equity Raising

Aveo today also announced that it has entered into an unconditional contract to acquire the remaining 27% minority holding in RVG that it does not already own (the "*Acquisition*"), with completion scheduled for 24 August 2016. The total Acquisition cost of approximately $100 million (including transaction costs) reflects a purchase price of 25 cents per security, which represents a 13% discount to the RVG current security value (CSV).

This completes the progressive acquisition of RVG securityholder interests that began in May 2015 when Aveo had only a 23% interest in RVG, with all acquisitions since this date achieved at an overall discount of 17% to the relevant CSV. The full consolidation of RVG significantly simplifies the Aveo portfolio structure, and allows it to take full control over the strategic and operational direction of the RVG villages, and accelerate value adding development and care initiatives across the portfolio.

Aveo CEO Geoff Grady said: "RVG is a quality portfolio that we know well and to which we have a long-standing commitment. Taking full control and ownership of RVG is entirely consistent with our strategy to expand our total retirement footprint across Australia and progressively build out our care and support services."

The Acquisition will be funded via a fully underwritten institutional placement of up to 37.1 million Aveo Group stapled securities ("New Securities") to raise approximately $125 million. The institutional placement price will be determined via a variable price bookbuild with an underwritten floor price of $3.37 per New Security, representing a 2.6% discount to the closing price of $3.46 on 16 August 2016.

New Securities will rank equally with existing Aveo stapled securities, and therefore be entitled to the FY17 distribution, which is forecast to be 9.0 cents per Aveo stapled security. The outcome of the placement is expected to be announced to the market before commencement of normal trading on Thursday, 18 August 2016. Pending this announcement, Aveo stapled securities have been placed in a trading halt, with normal trading expected to resume on Thursday, 18 August 2016. The placement is fully underwritten by Morgan Stanley Australia Securities Limited, Morgans Corporate Limited and Sun Hung Kai Investment Services Limited.

The Acquisition is expected to be EPS accretive over the medium term reflecting the future benefits of strategic control of the RVG portfolio, the continued roll-out of Aveo-Way contracts in RVG villages, the application of the Freedom care model to RVG's serviced apartments and consolidation synergies. Taking into account the Acquisition and the associated Offer, Aveo management is forecasting an FY17 underlying EPS of 18.3 cents per security, an increase of 7.6% on FY16 underlying EPS, and a further EPS growth of 7.5% from FY17 to FY18.

Funds raised in excess of the purchase price will be used to reduce debt drawn to fund the acquisition of previous stakes in RVG. Following the Acquisition and the Offer, Aveo's pro-forma gearing as at 30 June 2016 will be reduced to 15%.

Retirement Established Business produces record results

Revenues from Aveo's Retirement Established Business increased 36% in FY16 and profit contribution increased 21% to $58.6 million.

The Established Business contributed 736 units in FY16, up 7%, representing the bulk of Aveo's record sales volumes of 799 units (up 11%).

A focus on maximising potential unit price growth has resulted in increases in both the average DMF/CG per transaction price point (up 7%) and the average DMF/CG per transaction (up 8%).

New residents continue to enter Aveo's villages under the Aveo Way contract, which now has an established record of market acceptance.

Retirement Development

Retirement Development achieved its target of delivering a record number of 182 new units in FY16, across six different villages. Its profit contribution was assisted by development margins exceeding the target rates of 16% - 20% (before funding costs).

Construction programs for the delivery of new 301 units in FY17[3] are proceeding as scheduled. This includes 70 minor development units, relating to the reconfiguration and redevelopment of Freedom villages, to allow the continued roll out of the Freedom product.

Aveo's retirement unit development pipeline has further increased to 5,621 units (excluding minor development). Major sites include Springfield (2,372 units), Southern Gateway (441 units) and the Carindale redevelopment (416 units).

Retirement Care and Support Services

The focus on building out Aveo's care and support services is being strategically realigned followed the acquisition of the Freedom portfolio in FY16. This means an adjustment to the expected financial contribution of these services. Following that acquisition, expansion of these services will increasingly focus on Freedom's business model of delivering direct care on a not-for-profit basis, whilst receiving a relatively higher DMF/CG amount. This will mean lower Care and Support growth, but higher growth in the Established Business (where the increased DMF/CG is recognised).

Increases in Care and Support profit contribution over the medium term will be driven by the delivery of new aged care facilities and the expansion of services such as food and allied health.

Aveo's aged care facility development pipeline stands at 1,057 beds. The Group is targeting the delivery of at least one 100 bed aged care facility every year from FY17 onwards.

Non-Retirement

Aveo's Non-Retirement profit contribution has increased substantially in FY16 (up 66% to $55.1 million) due to improved sales across both land and built product. Land lot sales were up 28% to 648 lots and continued to maintain average margins of 24%.

Built product sales were boosted by completion and settlement of 280 of The Milton apartments.

Aveo's Gasometer 1 office and retail investment property at Newstead, Brisbane, has been revalued from $122.3 million at 30 June 2015 to $150.0 million at 30 June 2016. The increase is not included in FY16's underlying profit of $89.0 million, but is included in statutory profit of $116.0 million.

Capital management

Aveo's syndicated finance facility limit increased by $270m to $520m in FY16, encompassing the Gasometer refinance, Freedom acquisition and RVG securities purchase. Debt remains unhedged, whilst funding cost movements have reduced the weighted average cost of debt to 3.4%.

Pro-forma gearing after the RVG acquisition is 15.0%, comfortably within the target gearing range of 10% - 20%.

[3] The twelve months ended 30 June 2017.

Outlook

Aveo's Established Business continues to trade well, supported by strong lead generation volumes. The Freedom business continues to trade in line with expectations.

The Retirement Development ramp-up continues with development activity on track for delivery of 301 new units in FY17.

Aveo is making solid progress in the expansion of the Freedom care offering to selected Aveo villages and the roll out of Aveo operational improvements to RVG villages.

The Non-Retirement focus is on maximising prices and profit levels at the land estates as these are developed to completion.

Aveo is providing FY17 guidance of:

- Underlying earnings per security (*EPS*) of 18.3 cents, an increase of 7.6% on FY16 EPS of 17.0cps;
- EPS growth of 7.5% from FY17 to FY18; and
- A full year FY17 distribution of 9 cps, up from 8 cps in FY16.

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IMPORTANT NOTICES

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This announcement contains certain 'forward-looking statements'. Forward-looking statements include those containing words such as: 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan', 'consider', 'foresee', 'aim', 'will' and other similar expressions. The forward-looking statements in this announcement include statements regarding the outcome of the Offer and the use of the proceeds of the Offer and Aveo’s future strategies. Any forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice and involve known and unknown risks and uncertainties and other factors which are beyond the control of Aveo, including the risks and uncertainties described in the ‘Key Investment Risks’ section of the investor presentation dated 17 August 2016 also lodged with ASX today. This includes any statements about market and industry trends, which are based on interpretations of current market conditions.

Forward-looking statements may include indications, projections, forecasts and guidance on sales, earnings, dividends, distributions and other estimates. Forward-looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Actual results, performance or achievements may differ materially from those expressed or implied in such statements and any projections and assumptions on which those statements are based. These statements may assume the success of Aveo's business strategies. The success of any of these strategies is subject to uncertainties and contingencies beyond Aveo's control, and no assurance can be given that any of the strategies will be effective or that the anticipated benefits from the strategies will be realised in the period for which the forward-looking statement may have been prepared or otherwise. Readers are cautioned not to place undue reliance on forward-looking statements and except as required by law or regulation, Aveo assumes no obligation to update these forward-looking statements.

Further details regarding the 2016 financial year results, RVG Acquisition and the Offer including important notices and key risks are set out in the investor presentation dated 17 August 2016 also lodged with ASX today.