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Aveo Group continues to strengthen with strong start to FY17

- **HY17 underlying profit after tax of \$53.9 million, up 18% on HY16**
- **HY17 statutory profit after tax of \$121.2 million, up 82% on HY16**
- **Record sales with a total of 621 retirement units sold in HY17**

Australia's leading owner, operator and manager of retirement communities, Aveo Group (ASX: AOG) today released its HY17¹ results, which showed a strong start to 2017 and strengthened financial returns to securityholders.

Aveo delivered an underlying net profit after tax in HY17 of \$53.9 million, an increase of 18% on the HY16² result. This performance was driven by a lift in earnings across all retirement business segments. In particular, the strong performance of the core Aveo retirement business was enhanced by additional earnings contributions from the recently acquired Freedom Aged Care and Retirement Villages Group (RVG) portfolios.

Aveo Group Chief Executive Officer Geoff Grady said: "The momentum of last year continues for Aveo in FY17. We generated a record 621 total retirement sales for the half year, continuing three years of record sales for the Group. This was augmented by an increase in the average DMF/CG³ amount per transaction to \$97,800. Portfolio turnover at 10.3% is within the Group's target range of 10% to 12%."

"At a strategic level, the RVG⁴ and Freedom portfolios are performing in line with our acquisition assumptions and have now been successfully integrated into the Group. Our focus is now on creating enhanced value by pursuing growth opportunities within these well positioned retirement assets", he said.

Key financial highlights for HY17 include:

- statutory profit after tax of \$121.2 million, up 82%;
- underlying profit after tax and non-controlling interest up 18% to \$53.9 million;
- earnings per stapled security (EPS) on underlying profit after tax and non-controlling interest up 7% to 9.5 cents, despite the impact of the additional equity raised to fund the RVG and Freedom acquisitions;
- funds from operations (FFO) of \$82.8 million (\$89.5 million in HY16), largely driven by lower capitalised interest included in cost of goods sold;
- FFO per security of 14.4 cents (17.4 cents for HY16); and
- net tangible assets per stapled security of \$3.23, up 8% from 30 June 2016.

¹ The six months ended 31 December 2016.

² The six months ended 31 December 2015.

³ Deferred management fee & capital gain.

⁴ Retirement Villages Group.

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 89 retirement communities across Australia. Aveo also manages and develops a diversified \$400 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.

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Record retirement sales of 621 units

EBITDA from Aveo's Retirement portfolio increased by 57% in HY17 to \$45.7 million. This was driven by increases across all business segments and supported by additional earnings from the Freedom and RVG portfolios.

Aveo also recorded a record level of sales volumes of 621 units, up 76% from HY16. Development sales increased as a proportion of total sales, in line with increased delivery volumes.

Retirement Established Business

Driven by increased DMF/CG revenue, with an improved performance in the original Aveo portfolio supplemented by additional contributions from the RVG and Freedom portfolios, revenues from Aveo's Retirement Established Business increased 55% in HY17 to \$90.7 million and profit contribution increased 26% to \$35.5 million.

The Retirement Established Business contributed 513 unit sales of the 621 total achieved in HY17, up 58% and representing the bulk of Aveo's sales volumes.

The average DMF/CG transaction price point was up 25% to \$350,000 due to a combination of continued price increases across the original Aveo portfolio and the impact of the RVG communities, which are mostly concentrated in higher value Sydney and Melbourne suburbs.

Retirement Development

Aveo's Retirement Development business successfully delivered 58 new units as major developments in HY17 with the targeted delivery of 34 units at Durack supplemented by the delivery of additional units from RVG, mainly at a former RVG joint venture community that was fully acquired in October.

With 75 major development sales, more new units were sold than delivered in the period, as FY16 stock was sold down.

The sale of 33 higher margin minor development stock⁵ supplemented the profit contribution from delivery of traditional development units. Aveo remains on track to sell down this minor development stock over a three to four year period, at a rate of about 70 units per annum.

Construction programs are on track for the delivery of the remaining 208 new units in FY17. Planning is also significantly progressed for FY18, with the long stated target of 500 new retirement units by FY18 on track for delivery. Construction has already commenced on the FY18 delivery projects at Newcastle (50 units), Newstead (199 units) and Bella Vista (64 units). The remaining projects are at various stages of the design finalisation and subsequent tender process.

Retirement Care and Support Services

Aged care facilities remain the main profit contributor to Aveo's Care and Support Services.

The allied health businesses continue to provide a positive profit contribution and represent a strategic advantage for the Group. The businesses provide discounts to residents on health services, which provides a point of competitive differentiation, that in turn supports the results achieved by the Established Business.

Delivery of the new Durack aged care facility remains on track for the final quarter of FY17. Display apartments within the facility will be ready by the end of February, which will allow pre-sales to commence to prospective residents. Construction of the Newstead integrated retirement community development has now commenced, which incorporates Aveo's next aged care facility, scheduled for delivery in FY18.

⁵ Units refurbished to Freedom standard.

Non-Retirement

The profit contribution from Aveo's Non-Retirement activities decreased by 16% to \$31.0 million, due to the settlement of units in The Milton residential apartment project in HY16. Sales of land lots were impacted by the timing of various approvals. A skew to the second half is expected by the Group. Land sales contracts on hand remain high.

The Gasworks, Newstead, office and retail complex was independently valued at \$166.8m as at 31 December 2016.

Capital management

Indicative terms have been commercially agreed with the Group's existing syndicated facility lenders regarding an extension of the term of the facility to July 2020 and an increase in total facility limits by \$50.0 million to \$607.5 million. Other terms remain largely the same as the existing facility.

The Group's debt remains unhedged. Recent falls in interest rates have reduced the weighted average cost of debt to 3.2% per annum.

The Group's gearing is currently at 16.6% and remains within target range of 10% to 20%.

Outlook

Aveo's Established Business sales remain in line with its long term 10% to 12% turnover target, which now equates to approximately 1,000 - 1,200 units per annum. This strong sales momentum is driving low resale stock vacancy levels across the independent living unit portfolio and provides opportunities to increase unit pricing.

The introduction of the Freedom care offering across ten selected Aveo communities, and the continued rollout of the Aveo Way contract across the RVG portfolio, are significant strategic initiatives by Aveo and represent the first steps in implementing the growth initiatives that the acquisition of the Freedom and RVG portfolios affords Aveo.

The delivery of 208 new units is on track for the second half of FY17, which will complete the 266 new major development units targeted for FY17. Construction has already commenced on a number of major development projects with FY18 delivery timelines.

The new Durack 123-bed aged care facility is on track to be delivered in the final quarter of FY17. This will be the first new co-located aged care facility developed by Aveo and will enable a full continuum of care for residents at Durack.

As such, Aveo is maintaining its FY17 guidance:

- underlying EPS of 18.3 cents per stapled security (cps), an increase of 7.6% on FY16 EPS of 17.0 cps; and
- a full year distribution of 9 cps, up 13% from 8 cps in FY16.

The Group is targeting further EPS growth of 7.5% from FY17 to FY18.

Aveo remains on track to achieve its FY18 Retirement return on asset target of 7.5% to 8.0%.

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