



**ANNUAL SHAREHOLDERS MEETING**  
18 OCTOBER 2018

**CHAIR AND CHIEF EXECUTIVE OFFICER ADDRESSES**

## **CHAIR'S ADDRESS: Kim Ellis**

It is my pleasure to report to you about Metlifecare's performance for the 2018 financial year and other matters. The company's focus on continued performance improvement resulted in us meeting our targets in all key areas, with strong results being achieved financially and operationally. This has enabled Metlifecare to lift the dividend to its shareholders as well as being well positioned for another solid performance in the coming year.

I will take the next few minutes to summarise Metlifecare's financial performance as well as providing some insight into the strategic areas that the Board has been giving the most attention to over the past year. Glen will follow with an overview of the company's operating performance and also take you through some of the key initiatives under way this year.

### **FY18 Performance Summary**

The Board was pleased to report a further improvement in our financial performance for the year, highlighted by a healthy underlying profit and underlying operating cash flow. The 7% increase in underlying profit was driven primarily by a 13% lift in realised resales gains and supported by a very creditable 27% development margin on the occupation right agreements for new homes settled during the year.

This result is especially satisfying in that it was achieved against a backdrop of Metlifecare repurchasing 44 homes during the year, to provide temporary accommodation for residents as we work through a number of regeneration and betterment projects. This initiative has effectively removed those homes from resales stock until the projects are complete. As most of the repurchasing took place in the first half, it contributed to a subdued interim result. However this was more than offset by a strong second half performance. Overall, the company achieved 7% higher resales volumes and an 8% average price uplift across the portfolio - a commendable outcome.

This operating result was also a demonstration of the competitiveness of our villages and our care offering. Continued demand across the portfolio was reflected in the high levels of village occupancy at 98% as well as the high resales margins the company is continuing to achieve. Care home occupancy at 95% was well above the industry average.

Our net reported profit of \$125.1 million fell short of last year's result due to a lower rate of increase in the fair value movement of our property portfolio. While moderating house price growth has resulted in a more modest increase than last year, the value of our investment property still rose by 10%.

Our total assets are now valued at \$3.3 billion. Net assets per share rose 8% to \$6.93.

## Dividend

The Board was pleased to declare a final dividend of 6.75c per share. This took the total dividend to 10 cents for the full year, 24% higher than last year, thanks to the improvement in our underlying operating cash flow. This dividend has been calculated in the middle of our indicative payout range of 30 to 50% of underlying operating cash flow.

## Shareholder Value

Delivering shareholder value is one of the board's core accountabilities, and here I will give you a brief reminder about Metlifecare's key value drivers, and how we are aiming to deliver sustained value growth in the future.

First, through profitable, targeted expansion. We have established the capability to increase both the rate and efficiency of our development programme. The improvements in our development volumes and realised development margins demonstrate this. While we set a relatively conservative margin hurdle of 15%, we are currently achieving well above this due to the development efficiencies that have been captured as well as the quality of our villages and sites.

Realised resales are the engine of our business, and our high realised resales gains reflect the strength of our village locations in quality residential areas. The strong ongoing demand for our villages has enabled Metlifecare to consistently outperform the market in price growth, and consequently to deliver a solid increase in underlying earnings and cash generation year on year.

Embedded value reflects the future cash that will be released by every home in our portfolio at resales time - being a combination of the unrealised resales gains and deferred management fees attributable to each home. Of the major listed retirement village operators, Metlifecare has the highest embedded value portfolio by some margin, on a per unit basis. This is due to the consistently high market values and solid long term average price growth of the homes in our villages.

The company's growth programme, with its three pillars of Accelerated Growth, Commercial Intensity, and Customer Experience has underpinned Metlifecare's value growth over the past two years. Glen will update you further about this in his address.

## Board Focus

At Board level, we devote a considerable amount of our attention to the opportunities, risks and challenges facing the business. With management, we have established clear priorities and criteria, and all our decisions are considered against these. I'd like to briefly outline for you some of the key areas that we have focused on around the Board table this year, and that I believe, will continue to dominate our thinking.

1. ***We are investing in our people:*** Ours is a people-centric business, and we are clear that our success is dependent on relationships. With the need to attract and retain high-quality, skilled staff being stronger than ever, we are continuing to prioritise investment – particularly in learning and development, health and safety and providing a rewarding and enjoyable working environment. We believe this is starting to pay dividends – our metrics were strong this year including staff engagement and retention levels, and we were particularly pleased with the 96% satisfaction rating given to our staff by village residents.
2. ***We are setting new standards in care:*** One of the things the Board is most proud of, is how our care offering has developed over the past couple of years. With our resident-directed approach and homestead-style care homes, we now have a true point of difference in the market, and our audit results over the past year demonstrate the increase in the quality of care we're providing. We will continue to invest in the growth of our care business with the long-term aim of ensuring our villages are supported by a high-quality care offering.
3. ***We are investing in growth:***
  - a. ***In our 'home' markets:*** As a Board, we are continually talking with management about how - and where - we can best invest in growth. We are the leader in two of New Zealand's fastest growing and most highly-valued regions, being Auckland and Tauranga. Management knows these areas well, and we back our ability to meet the needs of our customers there. We believe the fundamentals of these markets remain very solid with strong underlying cashflows and high embedded values, and we will continue to invest prudently in targeted suburbs that meet our investment criteria.
  - b. ***Diversifying our land bank:*** Having built up a quality development land bank located primarily in the golden triangle, management is continuing to actively investigate nationwide opportunities that meet our strict investment criteria.

- c. ***Strengthened development capability:*** We have invested significantly in creating the in-house expertise and resources to deliver our development, maintenance and refurbishment programmes. The Board acknowledges that this was an area where the company had previously struggled to consistently perform. Metlifecare has now clearly demonstrated it can comfortably deliver 200+ quality homes and care beds per year and is well on track to achieve 300+ from 2020 onwards. Given our intention to continue securing quality land bank opportunities, we believe the build rate from 2020 is likely to increase year on year as the company continues to scale up.
4. ***We are investing in our existing villages:*** As part of the ongoing review of our village portfolio, Management has identified a range of opportunities to invest in protecting and enhancing the value and marketability of these assets. The Board fully supports this seven-year programme – we are taking a long-term view of our asset ownership, and our confidence in this approach already been reinforced by the value being captured to date from the projects at Pinesong and Coastal Villas.
5. ***Reviewing our debt structure:*** With growth momentum now well established, the Board and management have been working together to consider the best debt structure to support the next phase in our growth trajectory. While the company has support from our four banks to fund our current growth plans, we have also been contemplating the optimal way to fund future growth over the long term and will work through this with a view to communicating any such decisions to the market when we announce the half-year result in February 2019.
6. ***Our share price discount to value:*** Lastly, I want to briefly comment on our share price, which continues to be at a significant discount to the net tangible value of our assets. This is an ongoing source of frustration to us, and I’m sure, to investors. Whilst we continue to have high conviction in the value and long-term economics of Metlifecare’s existing portfolio and the quality of our development land bank, there are a number of initiatives that we could take to try and narrow the gap, such as a possible share buyback and diversification of the share register to assist with creating marginal buying support. We will advise any decisions on these matters at the half-year.

## Acknowledgements

As you can see, there is a lot happening around the Board table – we are an active, engaged group of directors with a diverse range of skills and views - and I would like to acknowledge the commitment and energy of my fellow Board members who work with diligence on your behalf. I would also like to take this opportunity to acknowledge Glen and his Executive Team for the proactive and constructive way they engage with us.

This year two of our directors, Chris Aiken and Dr Noeline Whitehead, are retiring by rotation, and are standing for re-election with the unanimous endorsement of the Board. You will have the opportunity to hear from Chris and Noeline later in the meeting. I would also like to take this opportunity to acknowledge Noeline who was recently a joint recipient of the 2018 VCare Award for Legendary Service to the Aged Residential Care Industry, at the New Zealand Aged Care Association Awards.

As I mentioned earlier, the success of this business relies on the outstanding efforts of the wider team - our 1,100 staff and various construction partners - who are responsible for delivering quality homes, living environments and a rewarding customer experience for our five and a half thousand residents. They are skilled, passionate and committed and it is due to them that the company's performance has continued to improve. We are pleased for the team that there have been several external recognitions for their efforts this year, which Glen will provide more information about.

Before handing over to Glen, I would finally like to thank you, our investors, for your continued support of Metlifecare. Our improved 2018 performance demonstrates that we are going from strength to strength. This in turn is providing the confidence that we can expand and deliver on our growth ambitions. This excellent result was the outcome of the combined efforts of the Board, our leaders and every person in the company, and we are pleased to have rewarded you with improved returns.

Thank you. I will now hand you over to our Chief Executive Officer, Glen Sowry.

## CEO ADDRESS: Glen Sowry

Thank you Kim, and good afternoon, ladies and gentlemen. I am pleased to report further solid progress for Metlifecare over the year to 30 June 2018, with some excellent company achievements. I will also take the opportunity to share with you some of the exciting things in store for us this year.

## Progress against our Strategy

When we reset our growth strategy in 2016 we identified three priority areas as being key to the transformation of our business and the realisation of our growth ambitions. Our focus has been on creating value through significant and sustainable performance improvement in each of those areas, and they have since been the drivers for our decision making, planning, and investment decisions.

By now you are probably familiar with these drivers in our investor communications; they are:

- **Accelerating our rate of growth** in order to capture the opportunities presented by a growing market;
- **Providing an outstanding customer experience** to meet the changing needs and increasing expectations of our customers and their families; and
- **Demonstrating commercial intensity** to ensure we optimise the returns we receive from the investment we are making in our villages, our people and the business

We are now two years into the delivery of this ambitious growth programme. We have invested significantly in our assets, capability, people, systems and processes – and with these building blocks in place, we are seeing momentum firmly established across the business.

Each year we set clear performance targets for each area and report against these targets – both within Metlifecare and also to our investors. You may have seen our scorecard in the past couple of annual reports – we see this as an important communication tool for investors as it allows you to see what we are focusing on, as well as how we are progressing each year.

In 2018 we again made excellent progress across each of the areas as denoted by the number of ticks against our key performance indicators. I will now cover off a few of our key achievements as well as taking you through where we are focusing this year.

## Customer Experience

The customer experience is central to everything at Metlifecare, from village design through to the everyday activities and happenings in our residents' lives. It is an exciting time to be developing retirement living options for the residents of today and the future.

Our future customers want quality, flexibility and choice – they won't want one size fits all, and they will be prepared to pay for it. They want to maintain their external connections with family and friends. They want to develop their own activities with other like-minded people rather than just joining what's on offer. We call this approach resident-led and it is core to the way we design our villages and village life, including our care homes.

### **Lifting our Village Experience**

Our ambition remains that the key point of difference for a Metlifecare village will be the quality of the experience enjoyed by our residents and their families, the choices they have, and their ability to live their lives how they want.

We have been working hard to raise the bar across all aspects of our customer experience, and over the past year, this has included the company-wide development and implementation of a set of clear Customer Service Principles. These principles are fundamental to the way our staff work with our residents and reflect the resident-led approach.

Our partnership with Simon Gault has strengthened our food and beverage offering over the year. Simon's advice and training of our chefs and kitchen staff has resulted in resident satisfaction in this area being significantly higher and the patronage of our cafés and dining facilities continuing to increase steadily.

We were delighted when the strength of our brand and customer experience was recently recognised when we received Highly Commended in the Readers Digest New Zealand Trusted Brand survey. We believe this reflects the progress we have made while acknowledging there is still more to come.

### **A New Standard in Care**

Last year we introduced Metlifecare's new resident-directed care strategy. Resident-directed care empowers residents to live how they want to, rather than having a lifestyle and routine prescribed for them. It gives residents and their families greater control over their decisions and, importantly, helps them maintain connections within the village and in their community.

This supports our resident-led village philosophy and our aim is to ensure all Metlifecare residents have ready access to care within the next few years. To achieve this, we are investing significantly in the development of fit-for-purpose care homes and the provision of high-quality service for our residents.

At the completion of the first full year of our resident-led approach, we have seen a step change in our care offering:

- We opened two new homestead style care homes at Greenwich Gardens and Somervale which fully support resident-directed care;
- We completed resident-directed training for our staff; and

- We completed the implementation of our integrated clinical system, which enables instant electronic access to resident information, and allows staff to spend more quality time with residents.

Last month also saw the opening of the Pinesong care home, which comprises nine certified hospital care suites and 11 rest home apartments.

The success of our resident-led approach is evident in the outcomes and recognition we have achieved:

- We have made excellent progress in care home audits which are undertaken by the Ministry of Health. In June 2017 only one of our eight care homes was certified for the gold standard of four years. Today, five of the eight are certified for four years with the remainder being certified for three years.
- We are also receiving industry recognition, being a finalist in several categories at this year's NZ Aged Care Association "Excellence in Care" Awards. These prestigious awards recognise the pursuit of excellence by residential aged care facilities and their staff, and Metlifecare was the winner of the Jackson Van Interiors Built and Grown Environment Award for our inaugural homestead-style care home at Greenwich Gardens. The award recognised Metlifecare's design innovation in creating a homely environment to support its resident-directed care philosophy, including the provision of intimate spaces to encourage socialisation as well as enabling the efficient and more personal delivery of care.
- Importantly, we are also being recognised by our residents and their families, through our high levels of occupancy; excellent satisfaction ratings for our staff and the care being received, and increased levels of premium charging. Premium care revenue increased by more than 150% during the year, and more than 50% of our care beds are now achieving premium fees.

While we will continue to refine and improve our approach, these outcomes have given us confidence in the strength of our offering, and that we have got this model right. We have a further eight care homes currently under construction and in planning, with the next two care homes at The Avenues in Tauranga and Papamoa Beach Village, on track for completion during the first half of 2019.

### **Investing in our People**

Like all organisations operating in the aged care sector, we recognise how critical quality people are to our future success. In recent years we have rewarded and developed our 1,100 staff well, and we will continue to invest in their training, development and working conditions.

We believe the introduction of Pay Equity during the year was a positive step towards being more able to attract and retain quality people to care for our residents. At the time of its introduction, we made the decision to voluntarily match the rate for our home support workers who were not covered by the agreement. Last month we were also pleased to ratify a new collective employment agreement which saw our minimum pay rate increase by three percent.

We have also maintained relativities for our nursing staff, who are receiving increases of between four and seven percent.

Our commitment to learning and development is embedded and will continue as we find more ways to improve our customer offering. In the 2018 financial year more than \$700,000 and 12,000 hours was invested in learning and development, with all staff engaged in some form of training or development. This included completion of a three-year leadership development programme, the resident-directed care training I mentioned earlier, and the company-wide implementation of our new Customer Service Principles.

We view all these initiatives as a sensible investment that will generate ongoing positive returns, by enabling greater quality and continuity of care for our residents. As an example, in the 2018-year, village staff turnover reduced by more than 12% and care staff turnover reduced by more than 20%. Staff engagement remained strong, and importantly, village and care staff satisfaction ratings by residents and their families were both well over 90 percent.

Solid progress has also continued in the implementation of our health and safety framework. We have been pleased to see the behavioural impact of initiatives such as contractor pre-qualification and compliance, and prioritising Health and Safety in tender process and contractor documentation; which have changed the profile of our contractor partnerships and improved contractor performance. Our health and safety metrics are also reflecting greater health and safety consciousness, with fewer reported incidents, and more hazardous observations and reporting of near misses.

## Accelerated Growth

Moving on to our accelerated growth programme.

### Accelerated Growth Highlights

As previously noted, Metlifecare's development delivery capability was proven as we met our development targets for the year, while also ensuring a quality land bank is in place for future development. This has required the management of more projects and sites than the company has dealt with previously and it is a credit to the commitment and calibre of our development team that it was achieved.

Looking ahead, our pace of change continues to lift. We have strong momentum in our development programmes, with activity under way across 11 existing and new village locations. We are planning to deliver 145 new homes and two new care homes in FY19, all to be delivered in the last quarter.

Looking out to 2020 and beyond, we anticipate a build rate of at least 300 units per year. As Kim said, we remain ambitious about growth and are confident that we have the capability to take that number higher as we secure quality sites that meet our investment criteria.

## 254 New Homes and Care Beds Completed

Here's a quick overview of the new retirement and care homes that were completed in the 2018 financial year:

- At Somervale in Mt Maunganui, we completed a new building comprising a 69-bed care home and 16 serviced apartments. This was the second of our new homestead-style care homes to open.
- At Greenwich Gardens on the North Shore, we delivered 62 apartments to complete Stages 3 and 6.
- At Oakridge Villas in Kerikeri, we completed 29 new villas, being Stage 6 of the village.
- We also completed Stage 5 at Papamoa Beach Village, with 30 new villas.
- And finally, the first of our village regeneration projects, the new Manukau building at Pinesong in Titirangi, was completed in June 2018. This 48-apartment building, with panoramic views over the Manukau harbour, has transformed the village and is selling well.

## Increasing Development Efficiency

One of the key design features of a Metlifecare Village is that we aim to reflect the characteristics of the local community. However, while quality of design is an important attribute, it does not mean that everything in our villages needs to be bespoke and customised. By driving standardisation and efficiency into our development programme, we can cost-effectively provide quality homes of a standard appropriate to the local housing market and new residents' expectations.

During the year, our in-house design team introduced a comprehensive design manual which articulates the design standards and typology requirements for the entire portfolio. This ensures consistent delivery across the portfolio regardless of who our construction partner is.

Standardisation extends to kitchens, bathrooms, bedrooms and storage for all new homes, and is also being rolled out this year for the 400-plus refurbishments we will undertake.

Since the introduction of standardisation, we are already achieving improvements in project completion times, improved building quality and procurement.

## New Sites – Orion Point and Beachlands

During the year we also celebrated the acquisition of two prime new village sites – Orion Point at West Auckland's Hobsonville Point; and Beachlands on East Auckland's Pohutukawa Coast. Both locations are destined for significant development and high target population growth, and due to their premium positions, have the potential to become destination villages. Each will offer the full continuum of care with a range of villas, apartments, care apartments and a care home.

We are very happy with these sites - our team has done great work to identify, evaluate and secure them. They have boosted our land bank to more than 1,700 homes or care beds – just under six years' worth of development at a projected build rate of 300 per year post 2020.

While we are currently satisfied with the size of our land bank, we are continuing to look for new opportunities in areas around the country that meet our stringent investment criteria. We are still open to the right opportunity in parts of Auckland currently underserved by retirement villages and aged care infrastructure as well as looking further afield for our next site acquisitions

## **Gulf Rise**

After receiving our resource consent late in 2017, work is now well under way at our new Gulf Rise village at Red Beach, on the Hibiscus Coast. Gulf Rise is the first of our villages designed as a neighbourhood precinct with services such as a street café and other amenities accessible to the wider community. As you can see in these artist impressions, it will be contemporary and far more like a new community than a traditional retirement village.

The first stage, being 35 new villas and 20 apartments, will be completed in mid-2019.

## **Edgewater**

Last year I talked about the opportunity we had identified at Pakuranga Village, which is now called Edgewater Village. We have a fully developed plan to make better use of the village's footprint - the development includes 44 new apartments, a new 24 bed homestead-style care home and new recreational and restaurant facilities due to be delivered in 2020.

Once finished, this village regeneration will significantly enhance the overall village appeal and customer experience for our residents.

## **Commercial Intensity**

### **Investing in our villages**

Not all development opportunities in our sector start with a bare piece of land. It's good practice to continually review the portfolio and look for opportunities to improve the quality of our villages and to ensure they remain competitive and well-positioned to meet the future needs of our customers.

Investment in regeneration, remediation and betterment in our village portfolio is a core part of our strategy. We've put a programme in place that will, over seven years, see significant reinvestment into our villages. This programme will result in superior homes and communal spaces, and these will lift the quality of our villages.

I have a couple of examples to show you the benefits of these projects and the value they are adding to our portfolio.

### **Village Regeneration – Pinesong Manukau Building**

Last year I told you how we were constructing a new 48-apartment building at Pinesong to replace a 19-apartment building that needed considerable improvement. The new Manukau building was completed in June 2018 and we have already sold/reoccupied 32 of these apartments. From a shareholder perspective this has also been an excellent investment for Metlifecare, unlocking value for the village and creating quality living for our residents. The project was completed on time and on budget, and after allowing for all costs (including buy backs), the development margin on this project will be \$6 million as the result of having 29 more apartments available for sale.

### **Village Remediation and Betterment – Coastal Villas**

Over the next three to four years we will be undertaking a remediation and betterment programme at five of our villages. This programme has been carefully planned to ensure all residents are able to remain living in their villages with as little disruption as possible while the work is going on. To assist with this, we have repurchased 44 homes across these villages for residents who need to temporarily move out. Richard Callander and his team have worked hard to ensure that our residents are being well looked after and I would like to acknowledge their efforts as well as the goodwill of the affected residents and their families.

As we work through this programme, we are seeing some real benefits starting to emerge. Here's an example from Coastal Villas on the Kapiti Coast, where a recladding project of 70 homes spanning seven years is well under way. We are now two years into the project and we are finding that residents are happy with the quality of work and modernisation being carried out on their homes. From an investment point of view, when those re-clad and modernised homes are coming up for sale, they are achieving an average selling price 28% higher than the CBRE list price. This is a strong return and demonstrates the value that we can add through betterment in these projects.

### **More to Come**

As we have shown you today, our plans for 2019 remain ambitious and we look forward to updating you as we achieve the milestones we have set ourselves.

We have strong momentum and the ongoing investment in our people, product, processes and our development pipeline, has us well positioned to continue improving our performance in the year ahead.

Consistent with our results announcement in August, we are still expecting to deliver higher volumes of occupation right agreements for both new homes and resales in FY19. Our

development sales numbers in the first quarter of this financial year have been strong. Resales numbers tracked ahead of the first quarter of the previous year.

We are continuing to invest in growth. Our development programme is moving at pace, and we are significantly increasing our reinvestment in existing villages. We will continue to expand our care offering with two new homestead-style care homes as well as raising the bar on care quality with our resident-directed care approach.

Our priority is to provide quality customer experiences for our existing and future residents. We will continue to focus on the evolving needs of our residents and empower them to live the way they choose. To support this, we will invest in our staff to ensure they are engaged, equipped and committed to deliver the best outcomes for our residents and the company.

To wrap up, I would firstly like to acknowledge and thank our very capable team at Metlifecare for their efforts and contribution towards achieving the past year's results. They are relentlessly focused on our residents, and live and breathe Metlifecare's values of respect, passion, teamwork and integrity.

I'd also like to personally thank our Board of Directors, whose commitment are evident in all they do for Metlifecare, and who I can assure you, do not hold back from asking the tough questions on behalf of shareholders.

Finally, I want to acknowledge our residents, who are the heart and soul of our villages and play such an important role in creating a great village experience; and our investors who have supported the company. As Kim said earlier, improving our investment performance is a key goal for the company and we will engage with investors on this.

Thank you for your ongoing support and confidence in Metlifecare. Before opening the floor to questions, I would like to take the opportunity to show you a short video of our next two villages, Gulf Rise which is currently under construction, and Beachlands, where site clearance has commenced.