Metlifecare

MEDIA RELEASE

28 August 2017

METLIFECARE REPORTS RECORD PROFIT AND SUBSTANTIAL DEVELOPMENT GROWTH

Metlifecare Limited performance highlights for the year to 30 June 2017[1]:

- Reported net profit after tax of $251.5 million, up 10%
- Underlying profit[2] of $82.1 million, up 24%
- Net Tangible Assets (NTA) per share of $6.43, up 21%
- Underlying operating cash flows[3] of $51.3 million, up 2%
- 235 development units and care beds delivered, up 124%
- Realised development margin of 23%, up from 13%
- Embedded Value[4] of $269k per unit, up 29%
- Loan to Value Ratio[5] of 4.8%, improved from 6.3%
- Acquisition of new Botany village site in East Auckland
- Final dividend of 5.8 cents per share; total dividend 8.05 cents per share, up 40%.

Metlifecare today announced a record financial result for the year to 30 June 2017. Reported net profit after tax was $251.5 million, 10% higher than last year's $228.7 million. Underlying profit, which removes unrealised gains in asset values, was $82.1 million, 24% higher than last year.

Chief Executive Officer Glen Sowry said the record performance was driven by a 14% increase in the total asset values to $3.0 billion, as well as a significant increase in realised resales gains and development margins. The value of Metlifecare's net tangible assets increased to $6.43 per share, up 21% or $1.11 per share. Mr Sowry said Metlifecare had made tremendous progress during the year. "We delivered on our growth targets with the completion of 235 new units and care beds - more than double last year's number - while at the same time increasing the development margin to 23% from last year's 13%."

"Additionally, our sharpened commercial intensity has contributed to strong price growth and we have outperformed the market in the areas our villages are located. Demand has remained consistently high and we have maintained 98% village occupancy[6]."

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[1] *Comparison is with the 12 months to 30 June 2016.*
[2] *Underlying profit removes the impact of unrealised gains on investment properties and also excludes one-off gains and taxation expense, and is reconciled to reported profit in the performance summary attached to this announcement. It is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS. It is calculated on a consistent basis each year.*
[3] *Underlying operating cash flow excluding development sales removes the cash flows derived from the first time sale of occupation right agreements of $82.5m from net cash flow from operating activities in the financial statements. Development sales cash flows are utilised to repay debt so net operating cash flows excluding development sales is a measure of the free cash flows available from operations. It is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS. It is calculated on a consistent basis each year.*
[4] *Embedded Value is calculated by taking the sum of the CBRE prices of units across the portfolio, deducting the resident refundable loan liability as per the balance sheet and company-owned stock items. The embedded value is a combination of Resale Gains and Deferred Membership Fees receivable. Embedded value assists readers to understand the potential future cash flows from Realised Resale Gains and Deferred Membership Fee Receivables.*
[5] *Loan to value ratio uses CBRE investment property valuation and is the preferred indicator of balance sheet strength.*
[6] *Occupancy includes contracted stock as at 30 June 2017.*

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Mr Sowry said the development performance resulted from ongoing improvements in development capability, consistency and quality over the year. "We are well on track to meet our FY18 targets, which include beginning construction of the new village at our recently-consented Red Beach site; completing the redeveloped 48-unit apartment block at Pinesong Village; a new 69-bed care home at Somervale Village; and new stages at Greenwich Gardens, Oakridge Villas and Papamoa Beach villages. Additionally, we will continue planning for our new Botany village site in East Auckland, which provides an outstanding opportunity to create a high-quality village in an area with significant growth potential."

Mr Sowry said village demand remained high across the company. "Our customer initiatives - such as the Simon Gault partnership and the Makers Movement - are strongly resonating with our existing and prospective residents, and are enabling Metlifecare to positively differentiate itself in an increasingly competitive market space. This is evidenced by the increased levels of enquiries and resident referrals for our villages."

"Our resident-directed care philosophy has also become well established across the business, and the completion of our first 'homestead model' care home at Greenwich Gardens was a highlight."

Net operating cash flows increased by 3% to $133.8 million and were largely used to fund new and existing village development, regeneration, maintenance and remediation, as well as reducing bank debt. Bank debt as at 30 June 2017 was 10% lower than the previous year at $72.6 million, with a resulting Loan to Value Ratio (LVR) of 4.8%, well within the maximum banking LVR of 35%, providing significant headroom to fund future development growth within debt parameters.

Metlifecare again delivered solid underlying operating cash flows (excluding development sales) of $51.3 million, driven by strong growth in occupation right agreement[7] resale prices and realised gains, but on lower resale volumes. "Our granular focus on sales price management contributed to average resale price growth of 20% per settlement, and increased average realised resales gains of 55% or $61k per settlement. While the impact of this performance was offset in part by lower levels of stock available for resale (including 25 units that the company has repurchased and temporarily decommissioned for remediation purposes), it is nonetheless a very strong operating performance."

Mr Sowry said settlement volumes of new ORAs were also down slightly from last year due to the delivery timing of 82 new units which were delivered late in the fourth quarter. He confirmed that since year-end, 43% of the completed units have been settled or are awaiting settlement, with solid interest in the remainder.

The Board has declared a final dividend of 5.8 cents for the year to 30 June 2017, bringing the full year's dividend to 8.05 cents, which is 2.3 cents and 40% higher than last year. The dividend is un-imputed and will be paid on 29 September 2017, with a record date of 15 September 2017.

Chair Kim Ellis said Metlifecare aimed to maintain a dividend pay-out ratio of 30% to 50% of underlying operating cash flows, which would balance returns to shareholders with the need to fund the company's growth. "Using this calculation, we have excluded development sales as they are used to repay development debt associated with the construction of new villages and are therefore not available for distribution to shareholders." The final dividend is likely to be 60% of the total dividends paid for the year in future years.

[7] *Occupation right agreements (ORAs) confer the right to occupancy of a unit or care apartment. A new resident is charged a refundable payment, on being issued the right to occupy one of the Group's units or care apartments, which is refunded to the resident subject to a new occupation right agreement for the unit or care apartment being issued to an incoming resident, net of any amount owing to the Group.*

Mr Sowry said the year ahead would see Metlifecare leveraging the momentum it has established and remaining focused on its strategic priority areas.

"Accelerated growth remains core to our strategy. Our analysis shows strong long-term sector fundamentals in our regions, including the continued increase in anticipated housing demand, an ongoing undersupply of housing development and the escalating growth of our target demographic. Projections show that the population aged over 75 in our regions will double to around 225,000 potential customers in the next 15 years."

"With our expanded development programme well established, we will also be heavily focused on further targeted land acquisitions to enhance our longer-term land bank. The ongoing regeneration and remediation of our villages will continue to improve the experience and wellbeing of our residents and ensure our villages remain competitive and marketable in the future."

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About Metlifecare:

Metlifecare is a leading New Zealand owner and operator of retirement villages, providing rewarding lifestyles and care to more than 5,000 New Zealanders. Established in 1984, it currently operates 24 villages, and is developing a further 3 sites, located primarily in high-value and high-growth regions of New Zealand's upper North Island.

Metlifecare is listed on the NZX and ASX.

Metlifecare - Performance Summary	FY17 Audited	FY16 Audited	% Movement
($m except as noted)			
Net Profit After Tax	251.5	228.7	10%
Non recurring item	(1.1)	3.1	-136%
Net profit excluding non recurring item	250.4	231.8	8%
Fair value movement	(258.8)	(237.2)	9%
Impairment of care homes	6.2	0.0	
Realised gain on resales	55.3	46.5	19%
Realised development margin	19.0	10.1	88%
Tax expense	10.0	15.0	-34%
Underlying Profit Before Tax	82.1	66.1	24%
Total income	109.1	106.2	3%
Operating expenses excluding Finance Costs	(109.1)	(100.1)	9%
Operating cash flow	133.8	130.0	3%
Operating cash flow excluding development sales	51.3	50.5	2%
Development sales value ($m)	82.5	79.5	4%
Resales sales value ($m)	163.2	176.9	-8%
Total sales value ($m)	245.7	256.4	-4%
Totals assets ($m)	2,960.6	2,586.4	14%
Total value of investment properties ($m)	2,889.4	2,524.8	14%
Total equity ($m)	1,370.2	1,133.0	21%
Earnings per share (cps)	117.6	107.5	9%
Interim Dividend per share (cps)	2.25	1.75	29%
Final Dividend per share (cps)	5.80	4.00	45%
Total Dividends per share (cps)	8.05	5.75	40%
Sales settlements (number)	129	138	-7%
Resales settlements (number)	349	430	-19%
Total volume (number)	478	568	-16%
Retirement village units (number)	4,207	4,025	5%
Residential care beds (number)	342	354	-3%
Total units & beds	4,549	4,379	4%
Net tangible assets per share ($)	6.43	5.32	21%
Embedded value per unit ($'000)	269	208	29%
New units & beds delivered	235	105	124%
Land Bank			
Retirement village units (number)	1,305	1,386	-6%
Residential care beds (number)	361	387	-7%
Total land bank	1,666	1,773	-6%
Shares on issue ('000)	213,006	212,883	