22 October 2014
Media Release

METLIFECARE ANNUAL MEETING – 22 OCTOBER 2014
CHAIR & CEO ADDRESS

CHAIR'S ADDRESS:

Over the past five years, Metlifecare has been transformed. Our asset base has grown to more than $2 billion, bank debt has been reduced to historically low levels and the company has implemented its growth strategy.

We are now positioned as New Zealand's second largest retirement village operator.

Delivering Shareholder Value

There has been a significant change in our shareholder base in the last five years, and more so, in the last 12 months. We now have over 4,000 shareholders, including our two new cornerstone shareholders, Infratil and NZ Superannuation Fund.

In the past two years, Metlifecare's share price has increased significantly as the company's turnaround has been recognised by the investment market and we are now firmly placed in the top 50 companies on the NZX.

We re-commenced dividend payments in the 2013 financial year.

Our Dividend Reinvestment Plan, which allows our shareholders to continue to invest into Metlifecare, was in operation for both the interim and final dividends in FY14.

I will now ask Alan Edwards to take you through a presentation covering our operational performance and results.

CEO'S ADDRESS:

Our Five Year Transition

As Kim has just mentioned, we have seen a significant change in the business over the past five years.

The Opportunity for Our Business

As many of you will know, the retirement village industry is a well-supported investment sector. The reasons for this are as follows:

Firstly, there is a compelling demographic story which presents a massive opportunity for retirement village providers. Population forecasts show that the number of over 65 year olds, the people we cater to, is going to grow strongly over the next 20 to 30 years and life expectancy is increasing.

Right now approximately 5% of people over 65 live in retirement villages. Looking back 30 years, this number was well below the current penetration rate. Over that time period the industry has grown significantly by satisfying demand in a real growth sector. Looking forward, the demographics indicate further expansion through the volume of people over 65 and through growing popularity (and therefore penetration rate) of the product offering.

As the New Zealand property market continues to strengthen, so does the value of our villages and our land bank.

The industry is still quite fragmented, and it has only been in the last decade that larger operators have started to consolidate and leverage the benefits of their size. Metlifecare is one of these and we are delivering strengthening returns following the restructure of our business over the last five years.

Revenue Increased

Our business is a mixture of different activities - the sale of Occupation Right Agreements and the provision of lifestyle and healthcare services, as well as property ownership and development.

Our revenue is primarily generated from the Deferred Membership Fees, which is an agreed percentage paid by the resident or their estate, when their unit is resold; as well as from the fees we charge for rest home, hospital and in-home care services; and the weekly village fee, which is a contribution towards the costs associated with the daily operations of the village.

In FY14, our total income increased to $94.8 million.

Operating Expenses Down

Our operating costs include employee costs, property associated costs, resident services costs, marketing and promotion.

In FY14, our operating expenses returned to more normal levels, compared to the previous year which included the costs of the merger. As we continue to expand Metlifecare's business, we expect operating costs to increase in line with growth.

New Sales and Resales

We sold 61 new units and resold 397 existing units in FY14, resulting in total cash flow of $174.7 million. New sales are expected to increase in future as our developments progress.

Occupancy remained high across the portfolio.

DMF and Resales Gain

DMF and resales gain has remained in line with the prior period with average resales gain at $69k and DMF at $55k for FY14. This is influenced by the split of ILU and SA resales within the year.

We expect DMF will increase in line with the portfolio and list price growth and as we swap legacy DMF contracts to the standard 30% membership fee over three years.

Resales turnover for FY14 was 10.9%.

Net Operating Cash Flow Down Slightly

Net operating cash flow was down slightly, as the previous year included revenue from Oakwoods village which was sold in FY13.

We also had lower DMF cash flow as a result of resale volumes being slightly lower. In FY13, the merger provided us with a one-off uplift in stock available for sale and this was sold progressively throughout the 2013 financial year.

Strengthened Balance Sheet

Our largest asset is our investment properties – that is, our villages. The fair value of our investment properties as reported in the balance sheet includes any change in their value during the year.

In FY14, the fair value of the Company's properties increased by $65.7 million. This was as a result of stronger pricing activity during the year, which meant we could sell the stock at better prices, and the completion of new units at our development sites. The Poynton Stage 3 was the biggest contributor of new stock.

All current debt is linked to land and/or development projects. Future growth will be funded by our banking facilities and operational cash flows.

Net Profit after Tax and Underlying Profit Increased

Net profit after tax increased by 18% after excluding FY13 non-recurring items associated with the merger with Vision Senior Living and Private Life Care Holdings and the disposal of Oakwoods village.

Net profit after tax includes a number of non-cash items such as the change in fair value of investment properties. Therefore, we also report underlying profit, which removes these non-cash items, one-off gains and deferred taxation. Underlying profit is a non-GAAP reporting measure that financial analysts often use to review our business. We believe this metric provides shareholders with a meaningful measure of the Company's operating performance.

Underlying profit increased 38% to $46 million and is more than 400% up from five years ago.

Our Portfolio: New Villages

We currently have over 5,000 residents in our villages. Driven by a growing demographic and increasing popularity, we are continuing to experience strong demand for the products we provide. The focus for the Board and management is to meet this demand. To do this, we are expanding our portfolio through both the construction of new villages and taking advantage of opportunities to expand, where appropriate, our existing villages.

Strategically, we remain focused on the golden triangle between Auckland, the Bay of Plenty and Hamilton which have large and aging populations. Outside of these locations we would consider land if demand, demographic and financial metrics met all our internal criteria.

We currently have 23 villages in the North Island of New Zealand and have started construction on a further two new villages in Auckland.

The Orchards

The Orchards is a $40 million village in Glenfield on Auckland's North Shore. Stages 1 and 2 are currently in development and we have been encouraged by strong early demand for apartments. When it is completed, this village will offer 96 apartments and a 36 bed care facility.

Like all our villages, a wide range of facilities will be provided, including Cox House Café. This was the original heritage homestead and it has been relocated and renovated to provide a place for residents and the public to enjoy. We encourage shareholders, once the Café is completed, to drive to Glenfield to enjoy a coffee in our Café.

Greenwich Gardens

We have also received resource consent for Greenwich Gardens, which will be a much larger village in Unsworth Heights, again on Auckland's North Shore. Plans for this high quality, $160 million village include 75 villas, 235 apartments and a 48 bed care facility. During the last half of FY14 we completed the bulk earth works removing 53,000 cubic meters of soil. More recently Stages 1 and 2 have been approved and are under construction. These stages collectively comprise 27 two and three bedroom villas.

Our Portfolio: Village Expansion

As well as building new villages, we also have a number of expansion opportunities available to us at our existing villages. We have moved forward with several of these in the last 12 to 18 months.

Stage 3 of The Poynton in Takapuna was completed in the last year and we started construction of Stage 4. Together, these two stages of development will provide an additional 117 apartments in the village. We have consistently strong demand for apartments at The Poynton and the new developments will help us meet more of this demand. On completion of Stage 4, The Poynton will be fully developed.

At Coastal Villas we have 15 units under construction and eight at Papamoa Beach Village in Papamoa.

We have also received resource consent for a further development at The Avenues in Tauranga. This will allow for an additional 42 units and a 38 bed care facility.

We are currently working on several other brownfield projects at our villages.

We have also initiated the construction of the village community centre at Oakridge Villas in Kerikeri. This will consist of a lounge, dining area, kitchen, bar, activities area, administration office, swimming pool, gymnasium and a fireplace. Outside there will be a Petanque Court and BBQ area.

Continuing our Growth

To ensure our future growth, we continue to identify and assess opportunities to grow our land bank. In particular, we are looking to acquire suitable land sites, which meet our criteria, within our targeted geographical markets.

We will also continue to convert the development opportunities within our existing portfolio. Our development pipeline is currently 1,058 additional units and care beds, of which 202 are currently under construction.

Last year we told our shareholders that we would, on a sustainable basis, deliver 200+ units (villas, apartments and hospital/rest home beds) per annum by 2015 and we remain on track to achieve this.

Provision of Care

Continuum of care remains an important area for us. This means providing our residents with access to increasing levels of care and assistance within the villages, when needed.

As our population ages and lives longer, there is a growing demand for quality residential aged care, particularly for those aged over 85 years. We have already seen demand start to grow and are meeting the current and forecast increase by incorporating care facilities into new and existing villages, where appropriate.

We also offer in-home support which gives our residents the ability to choose from a range of different support services to make their lives easier while allowing them to stay in their home. This is a very important factor in allowing residents to retain their independence.

This is a specialist area and we have well qualified staff and proven procedures, systems and processes in place.

Market Conditions

The residential real estate market, particularly in Auckland, continues to perform strongly and this has had a positive impact on our business. Most of our prospective residents need to sell their home before moving into one of our villages. A strong real estate market often helps them to sell their home quickly and at a better price.

The new Loan to Value restrictions seem to have had little impact on Metlifecare and applications have remained strong.

Strategic Focus 2014

The company's aspiration is to be the leading operator of retirement villages and care facilities in New Zealand. We have identified four areas of focus to help us achieve this:

- Firstly we will continue to enhance the efficiency of our villages to ensure we are operating our business as effectively as possible. This includes making sure we have best practices and processes in place, investing into our people to enhance their skills, and continuing to build on the caring culture of our organisation, optimising opportunities to leverage technology advances and to maximise referrals by maintaining good resident and staff satisfaction ratings.
- Secondly, expansion of our portfolio through both greenfield and brownfield development to take advantage of the forecast supply gap in the market. We have a large pipeline and a number of developments currently under construction. We are continually looking for more opportunities to add to our pipeline and portfolio.
- Thirdly, to integrate more care services into our villages to provide for the higher care needs of our older residents through either age related residential care or through in home care or aging in place services. All our new villages are likely to incorporate a specialised residential aged care facility and we will add more services to existing villages, where there is demand.
- Finally, we will also continue to optimise cash flows through maintaining relativity with movements in property prices, by investing in our current assets ensuring best maintenance practices, prudent procurement practices and obtaining fast turnaround times on new sales and resales.

Our People

Our goals will only be achievable with the support of our people.

We have strengthened our management team, with several new appointments in FY14.

We have an excellent team of people across our villages who provide our residents with the lifestyle and care they expect.

The Board and management believe it is important that our remuneration strategy supports a balance between fair and equitable remuneration, our social responsibility and long term sustainable return.

We can only do that if our remuneration strategy is aligned.

We are engaged in the review of our remuneration strategy and examining how we can offer an approach that addresses pay equity, training and recognise great performance when performance honours our residents and the direction of the care or support and partnering they need.

We need to focus on attracting, retaining and motivating an engaged workforce who are equitably paid for the work they do and have a clear career path within Metlifecare.

Over the next three to five years we aim to have the majority of our care staff operating with a care assistant level 2 qualification or above. The respect and value for the aged care workforce is intrinsically linked to respect and value for older people. By focusing on the right remuneration mix we believe that we can start to put an identity back into the role of the care partner and contribute to growing a sector where there is incentive for people to seek a career in aged care.

Our remuneration strategy must reflect balance between pay, benefits, learning and development rewards, career pathways and environmental factors with the work place. Further, it must be sufficiently market competitive to attract talented people and be motivational to retain talented people.

Thank you to all of our staff for your efforts in helping us make Metlifecare an excellent place to live and work.

Resident satisfaction is consistently at or above 90% and we are working hard to make sure we continue to meet and exceed the expectations of our residents. This includes continuing maintenance and improvements at existing villages to ensure facilities remain in optimum condition. It also means investing in our people, to ensure they have the skills, resources and support to provide our residents with the best possible care.

In line with this, we were very pleased that Metlifecare was recognised as one of the most trusted retirement village industry brands at the 2014 annual Readers Digest Most Trusted Brands awards.

I would also like to thank the Board for their support as we continue to build our business.