27 October 2015
Media Release

METLIFECARE ANNUAL MEETING – 27 OCTOBER 2015
CHAIR & CEO ADDRESS

CHAIR'S ADDRESS:

I have been on the Board and in the Chair role for just one year. The following are some brief and early observations of our company that I would like to share with you.

Reported Result

MET, and the industry, report two versions of performance - statutory profit and non IFRS underlying profit. There is also another measure of the company's well-being. That is evidence of strong cash generation in the core business (i.e. excluding development sales; and village revaluations). For MET in 2015 this was driven by a record level of resales within the 4,000 odd units across MET's 25 villages, boosted by price escalation in the upper North Island residential market. The resulting operating cash flow excluding new sales was $34.4 million or 16 cents per share. This compares with five cents per share three years earlier. It is anticipated to continue increasing in future years as our existing and new villages approach maturity. The operating cash flow measure is an important guide when considering dividend payout.

Development

I have been asked a number of times - what is the rationale for our increasing focus on development - both brown and greenfield?

Very simply it is to 'bulk up' our core business and thereby grow our cash generating capability over time. Development itself is unlikely to produce excess cash. At best, new sales will recover the cost of land, infrastructure, unit construction, common and care facilities. Having said that, sufficient scale could provide a small cash return. Over time as stock begins to turn over then the completed development will start to deliver additional cash to the business.

A related question is - why does MET trade at a material discount to its major competitors?

When we buy land to develop, our independent valuer, CBRE, imputes a value based on the highest and best use of the land, which may or may not be for the construction of a retirement village. As we develop the village, CBRE value residual land, completed units (on the basis of future cash flows) and work in progress is held at cost.

On the other hand, the 'market' imputes value for new developments based on a company's perceived ability to convert bare land into a completed village incorporating the future value of retirement village units. Depending on the track record of the company this value uplift can occur as soon as the purchase of a piece of land is announced – conditional or otherwise, with or without consents, indeed even before land has been identified for purchase.

In the case of MET with no sustained development history, no such uplift accrues until a newly built unit is sold. This is a major contributor to MET trading at approximately NTA while our major competitors trade at multiples of NTA. The Board and Executive of MET are determined to bridge this share price credibility gap over the next few years. Ultimately however real cash generation will speak for itself.

This is all said with the caveat that my fellow directors and I have a healthy respect for business cycles and will be maintaining a close overview on the company's pace of growth.

Care

There is no doubt that MET is behind on the Care curve in terms of the provision of the integrated model which, supported by plentiful evidence, leads to a stronger and more resilient cash flow. Improving the company's score in this aspect of our business is relatively straightforward in the case of new village development. We are committed to including care facilities into our newly built (Greenwich Gardens and The Orchards) and prospective village developments (Red Beach and Albany). On our existing sites the introduction or expansion of care facilities is financially and logistically considerably more challenging. Nevertheless progress can be made and the new 70 bed development scheduled to get underway shortly at Somervale Village in Mount Maunganui is an encouraging example.

Strategic Clarity

Every business needs to understand its unique proposition and where it wants to get to. At MET how do we aspire to be instantly recognisable in terms of our villages, people and residents? What do we want our investors to experience over the next five and ten years? Are we ahead of the game in terms of preparing our business for 20 years hence? It would seem to me that this is all work in progress. MET has been through considerable challenges and change over recent years. Hopefully we now have a period of stability in terms of ownership and governance to thoroughly address these matters and to articulate the outcome of our deliberations clearly and succinctly to all stakeholders.

Executive

The appointment during the year of Richard Callander to oversee our extensive village portfolio; and more recently of Charlie Anderson to lead our growing development team; are significant milestones in building a best in class leadership team.

In July our CEO announced he planned to retire at the end of the financial year. Alan has played an important role in pulling together one of NZ's largest retirement businesses out of the 2012 merger of Metlifecare, Vision Senior Living and Private Life Care. Under his leadership we have a full house, healthy resales and happy residents. In addition we are finally out of the blocks in terms of new village development.

Alan gave us a full year to find his replacement and the search is well under way. The next phase of MET's evolution requires us to deliver on our development aspirations and to drive the business model harder. Success in both these areas will enhance the rate of cash generation. The Board expects to have identified a preferred candidate by December with a negotiated start date prior to Alan's mid-2016 deadline.

The Board

I have inherited a highly committed relatively new group of directors with strong complementary skills in finance, care, property, investment analysis and governance. The intense committee work during the year necessitated to oversee and resource the plethora of initiatives at MET saw all directors heavily engaged.

So that's my first report card for MET. I look forward to another health check at the next Annual Meeting.

CEO'S ADDRESS:

I am going to split my presentation into four sections, to start I'll cover our strategic priorities and then move onto being in the right place at the right time and cover off development. Following that I will talk about our results and operational performance during the year. Finally, I will cover off the year ahead and finish off with my retirement.

Our focus is on three key strategic components:

- continuing to build a deeply engaged workforce through an enviable culture which delivers a clear outcome around being an employer of first choice;
- driving operational excellence to provide enviable living environments with products and services which exceed expectations driving villages of first choice for residents and;
- driving sustainable growth through our greenfield and brownfield pipeline delivering an investment proposition of first choice.

It is a cliché to suggest that the retirement village industry faces great growth prospects. The demographic story is exceptionally compelling. With close to 50% growth in the demographic by 2031, the pressure on additional villages and care homes will be continuous. Today's retirees are increasingly placing value on knowing that there is a care home on site. Metlifecare has been consistent in messaging that it is seeking to increase the amount and prevalence of care on its sites. Our build rate evidences this shift. Over the next two years we will deliver 423 new units and beds split 63% ILU's/ILA's and 37% care beds.

In terms of a development update for FY16, we completed 36 care beds and 37 apartments in the first quarter at The Orchards. The care beds are now being occupied and the apartments were all sold prior to completion and are being occupied at a rate of two per day. We said we would deliver 122 units and 36 care beds; we have delivered the 36 beds and 37 units with the balance all progressing according to plan. These include 55 units at Greenwich Gardens in Unsworth Heights, 18 units at Papamoa and 12 units in Kerikeri.

During this calendar year we have announced the conditional acquisition of three large sites located at Red Beach, Manukau and most recently Albany. The conditionality is vitally important as it gives us time to consider all elements and hurdles that underpin the decision to allocate capital appropriately. The meeting may not have caught up with our announcement, but today we have decided, following extensive due diligence, to not proceed with the acquisition of the Manukau Golf

Course site. At this time we believe that other opportunities will provide better outcomes and will be smarter capital allocation decisions.

In terms of a report card for development; The Poynton Stage 4 completed on time and under budget with the sell down progressing steadily, Stages 1 and 2 at Greenwich Gardens completed on time on budget with the sell down almost complete, Stages 4 and 5 are progressing on time and on budget, the final stage at The Orchards is progressing on time and on budget following mixed fortunes on Stages 1 and 2. I am referring to the fact that we sold these stages down completely prior to occupation, however saw margin erosion through cost variations that were unforeseen. As one would expect, lessons learnt have quickly found their way into our other projects to ensure that these outcomes are not repeated. Our development pipeline now consists of 1690 units and 502 care beds. On completion of the pipeline we will have grown our ILU/ILA stock by 42% and our care beds by 140%.

Currently our business is skewed more heavily to ILU/ILA stock; 8% of the total units and beds are care. In building out the pipeline this will shift the proportion significantly towards a greater proportion of care, expected to be around 14%. As we add new sites and find build opportunities around existing sites, this proportion is expected to increase further. Three years ago I stated that we sought initially to achieve a 20% proportion and that wherever possible, new developments would have a minimum of 20% care beds as a general target. We are making progress in this regard.

In looking at our pipeline, it is Auckland-centric, however our care beds are skewed to the Bay of Plenty. Currently we have 714 ILU's/ILA's in the Bay of Plenty and 40 care beds. That is less than 6%. We are seeking to establish a net additional 174 beds over the next few years. There are opportunities at four of our five sites to expand into care.

Forty years ago, the Queen sent about 100 letters a week to Britons who had reached the age of 100. She now employs more people because the numbers run at between 700 and 800 a week - and are set to increase significantly[1].

Baby Boomers feel younger, fitter, faster and richer than their previous generation counterparts. They will consume products and services on their own terms. They will work longer, they will want to be connected, they will want to be in the cut and thrust, many will work well beyond 65. We need to respond to these challenges as promises we make today get called upon in eight or ten years from now. Today's 67 years olds are our 75 year old buyers in eight short years.

The pace is fast. It will only get faster. It seems like a long time ago that I used a quote to describe the pace of change; it was something like this, the pace of change has risen from a Viennese Waltz to Hip Hop Street Rap. We are living to a very different pace and there is no sign to suggest it will slow.

[1] New Zealand Herald, 13 October 2015

Professor Paul Spoonley at Massey University recently commented on the rapidly growing "silver" age group and suggested the following:
"One initiative might be to encourage inter-generational living spaces so that the elderly are not confined to communities and buildings that house only other people of their own age. This might involve the co-location of a crèche with a retirement home, such as is happening in the Netherlands. Or the "silver human resource centres" in many Japanese cities, which seek to maximise the involvement in community activities of elderly Japanese.[2]"

Whatever we decide to do, we do know that the next generation will seek to remain engaged and active for longer.

Soon we will all have a Fitbit, we will all have access to E-Care and our focus on "healthy outcomes" will grow stronger. Ease of access to fitness environments and good quality foods will be the norm on our check list when we look for somewhere to live. We all want to live longer but healthier. The Baby Boomers – and I am one of them – want to live "full speed" till the end! The more highly urbanised the environment the better.

This is also being driven in the highly diverse Auckland market where currently one in three people will refer to themselves as non-European, by 2025 this will be one in two. Additionally, 40% of Aucklanders will speak a language other than English as their first language. As a business we need to remain relevant and that means responding to a rapidly-changing environment.

In terms of recent conditional acquisitions, the Red Beach site forms part of a larger subdivision of the Peninsula Golf Course. The location is excellent as it is on the elevated portion of the site, it provides easy access to the Hibiscus Coast Highway, Silverdale and Orewa shopping and State Highway 1. With a full continuum of care, this village offers 420 ILU's and 72 care beds.

Buildings on this site will vary from two levels through to five levels. We are seeking to ensure that this village meets the discerning needs of the modern retiree. Some of the shifts we are seeing include a need for villages to be more connected to the wider community and we are responding to these needs by creating mixed use spaces like a public café.

At both Albany and Red Beach we will seek to link our villages seamlessly to the wider community by providing retail environments that meet our resident's needs as well as the needs in the broader community. What we are seeking to do better is ensure that the experience of buying into a retirement village is like buying a house in any community except that there is far greater and easier access to products and services that meet the changing needs of older people so that they can live the very best life possible within any personal limitations imposed by the aging process. We see this translating in new urban design which provides villages within villages. The speed at which technologies are evolving will influence how we wish to live in the future. Responding to these shifts is our responsibility and who knows how much the future driver-less car will impact or change transportation trends. Whilst we live in a highly dynamic environment, we believe that the primary drivers around feelings of safety and security will remain one of the top reasons people will choose a village, closely followed by convenience.

[2] *Professor Paul Spoonley – New Zealand Herald 13 October 2015*

Looking at some of our key performances we can start with stock and occupancy.

Over the past few years we have grown our portfolio of completed stock by both acquisition and by new builds. Since the merger which positioned Metlifecare for growth, the company has maintained this focus, steadily lifted the build rate and has also significantly lifted occupancy levels. At our current occupancy we are running with between a month and a month and a half of uncontracted resales stock. These stock levels ensure that the business is generally running at an optimal level of performance.

As the portfolio continues to mature, we will see increases in the number of resales completed annually. Big villages such as Pinesong, Waitakere Gardens and Dannemora Gardens in Auckland have not reached full maturity and therefore the volume of resales are still below what is a normalised rate seen in older villages. Whilst new sales activity has been lumpy, the trend set of FY14 and FY15 will continue as the company ramps up development activity over the coming years.

The embedded value is a key measure of price growth and capacity growth within Metlifecare. Essentially, if we were to repay all existing residents today and then resold every occupation right agreement tomorrow, then we would cash $155k for each unit owned. The embedded value represents the cash to be released over coming years. In the past 12 months the embedded value has increased by 19.4%.

One of the industry's measures of performance is found in underlying profit. The company has seen continuous improvement in this measure over the past few years. I recall my very first Annual Meeting where underlying profit was just above $5 million. In six years this has grown ten times.

Last year at the Annual Meeting the Chair said that we would be undertaking a full strategic review of our wages for care givers and other roles within Metlifecare. In coining the phrase "Employee Value Proposition" (EVP) we considered the whole experience of an employee from the time we advertise for a role through to recruitment, engagement and working for Metlifecare. Remuneration is a large part of this, however our staff have told us that they value the opportunity to be engaged in meaningful careers, meaningful learning and have access to real career paths within Metlifecare. Our value proposition has given real meaning to all these factors. We have introduced steps between care giver levels one through to four which are very meaningful in terms of remuneration. Moving from level one to level two now has a real financial benefit to an employee. For Metlifecare we know that a better skilled workforce delivers more accurate care which simultaneously enhances the resident's experience. There are strong tangible benefits here for the residents, the employee and the shareholders. Our wage structure is now rewarding, it is designed to attract the best of the best and it enables the company to retain the best of the best. These steps will drive engagement levels within the company. We know that a reduction in staff turnover is a cost avoided. The EVP will have a strong beneficial contribution to Metlifecare as a whole and drive us to our goal of being an employer of first choice in our industry.

In 2013 we started measuring the net promoter scores throughout our villages. We have seen consistent improvement annually and seek to continue this trend. In the last two years this has increased significantly from 22 in FY13 to the current score of 38. In our industry our undertakings are always "long dated" and we have to deliver on these undertakings in 6, 10 or even 15 or 20 years from now. We undertake to resell units in order to repay the obligation taken on entry. To achieve this we know that maintaining high levels of resident satisfaction is directly linked to doing what we say when. Doing right things right. The net promoter score is our feedback on the residents' experience of our company.

Earlier I covered our three areas of strategic focus; within each focus area the Executive Team and broader Metlifecare Senior Leadership Group will drive the subsets associated with each of the segments ensuring we achieve the overarching goals, to learn from our past and to actively build on what we know – the essence of the continuous improvement model. We have taken a leadership position as a premium payer in our industry. In conjunction we are building meaningful career development and growth opportunities. In parallel, we are seeking to step up to a new level in the service environment and give real meaning to resident-directed care so that at Metlifecare residents truly do "live the life they choose". Finally, seeking to deliver sustainable growth through a rolling 10 year development plan supported by detailed long term maintenance planning, asset protection and renewal plans supported by scalable IT system and support services.

These initiatives and focus areas will continue to move Metlifecare forward in all areas of endeavour, providing a stronger value proposition for our residents, our staff and our shareholders.

I have devoted more than six years, nearly seven by the time I finish, of my life to continuing the history of Metlifecare. Its founder, Cliff Cook, was visionary back in 1985 when he started Pakuranga Village. The company has been through some really good times and some tough times over the past thirty years. I have been privileged to have been at the helm of this business during a period of sustained growth and success. The seven gear shifts document some of the major strategic moves to get to where we are today. We were a highly debt-laden business with very few shareholders, one holding 82% of the shares. Along the way we have made some decisions that have not always at first been popular, but always moved the business towards being stronger. It has been a particular highlight for me to report a better result every year and long may that continue. We now have Metlifecare poised to grow along with strong cornerstone shareholders, a high level of institutional support and a rapidly growing retail shareholder base. Our balance sheet is structured to navigate through both periods of strong growth as well as times when the markets become more challenging. We now have a stable Board. The Executive team is a perfect mix of good long term experience and the fresh enthusiasm of new Executives. The challenges for Metlifecare today are very different from the challenges some six years ago. The path is open for the new CEO to take control and lead boldly and courageously to a new level of success. I will watch from the side-lines and applaud as Metlifecare ticks off the next series of milestones to finally earn the multiples above NTA that this company and its shareholders deserve. I wish to acknowledge that none of what has been achieved could have been achieved without the support of an awesome and talented Board and Executive Team and the more than 1,000 staff of Metlifecare who lead with their hearts in delivering values-based services to more than 5,000 residents who call Metlifecare home.

Thank you.

ENDS

For more information, please contact:

Alan Edwards
Chief Executive Officer
Tel: +64 9 539 8000

About Metlifecare

Metlifecare is a publicly-listed aged care and retirement lifestyle company.

The happiness of our residents is at the heart of everything we do. We offer rewarding retirement lifestyle within vibrant social communities backed up by a full range of care services when required.

Established in 1984, the company has a proven track record of successfully owning and managing retirement villages in New Zealand. Metlifecare currently owns villages in prime locations throughout the North Island of New Zealand. Designed with our residents' personal freedom and sense of security in mind, our living options range from independent villas and apartments through to serviced apartments, rest homes and hospitals.

metlifecare.co.nz