

## ASX / MEDIA RELEASE

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### Ingenia Communities 2014 Annual General Meeting

#### CEO Update

Good afternoon ladies and gentlemen, and welcome to the 2014 Annual General Meeting for the Ingenia Communities Group.

Thank you for your attendance today.

This afternoon I will present you with a brief overview of the financial and operational performance of each of the Group's portfolios over the last 12 months, update you on the markets within which we operate and finally, outline the Group's outlook for the next 12 months and our future business strategy to create superior and sustainable securityholder value. I will also spend a little time outlining where the Group presently is with Lifestyle Park sales and development which is top of mind for the market at the moment and the likely key catalyst for a security price re-rate.

I will also be asking our long serving Chief Operating Officer, Nikki Fisher, to briefly discuss the Group's short term and tourism strategy and how that business has considerable and exciting upside potential.

I recall joining the Group back in November 2009 when we were part of the ING Australian Funds Management platform. Those of you who were securityholders at the time will recall that the Group was a business without a clear strategy, a very unstable capital position and indeed some very valid concerns over future viability.

Today, with the commitment of an incredibly capable and dedicated team, Ingenia is recognised as a market leader with first mover advantage in the most exciting space in seniors living. Further we are in the unique position of being constrained by neither opportunity nor capital.

However, while these achievements are significant and this position hard won, be assured that the Board and management are extremely cognisant that we are only at the beginning of our journey and considerable work lies ahead. Our strategy is to own, build and operate a highly profitable Australian seniors living portfolio that offers investors sustainable distributions, strong capital growth and a pipeline of profitable acquisition and development opportunities.

I am acutely aware that after several years of strong security price growth the last 12 months has seen the stock track sideways. I would categorise this reason, based on over 200 investor meetings in the past year, that the market is looking for proof of concept on our manufactured home development model. It is the Group's intention to provide that confidence in the current financial year and hopefully by the end of my presentation you will be as confident as I am that we have the strategy, assets and team to deliver.

#### **SLIDE – DELIVERING ON STRATEGY**

I would now like to review a number of highlights that have happened in the past 12 months.

Several years ago Ingenia announced its intention to focus on the cash yielding affordable segment of the Australian seniors living market. Proforma, including four recently announced acquisitions, our cash rent collection businesses of Garden Villages and Active Lifestyle Estates will comprise over 80% of the portfolio. Ingenia is now the clear market leader in NSW in the Lifestyle Parks business and is rapidly expanding into the SEQ market after considerable assessment and market analysis.

With tenant consent to the sale of our New Zealand student accommodation portfolio expected this week, settlement and repatriation of approximately \$15 million will most likely occur in December. These proceeds will be immediately redeployed into our Lifestyle Parks business. The exit from NZ has been a tumultuous journey and will also free up significant management bandwidth for execution of our Australian growth strategy.

The Group's capital position remains in a very strong and stable position and we are presently finalising the refinance of our core Australian debt facility which will not only provide for more flexibility but at a significantly lower cost of funds.

Notwithstanding all of the positive development over the past 12 months there remain some areas of the business where improvement is required. The return on equity from our Settlers DMF business, stripping out one-time development profits, remains frustratingly low. Garden Villages occupancy growth continues to trend backwards during the winter months and at a couple of our Lifestyle Parks we have probably moved too early in delivering new homes when we should have focussed on completing site masterplanning.

#### **SLIDE – CHANGING BUSINESS MIX**

On a proforma basis, including the acquisition of BIG4 Noosa which was announced on Monday, over 80% of the Group's assets will be deployed into cash yielding rent collection and capital light, low risk park expansion.

Longer term, whilst the group will continue to look at accretive acquisition opportunities in the rental village space, it is likely that all growth capital and proceeds from asset recycling will be deployed into our Lifestyle Parks business.

#### **SLIDE – FINANCIAL HIGHLIGHTS**

The Group's balance sheet is in excellent shape.

Statutory profit and underlying profit were up strongly for the year ended 30 June 2014 and segment revenue was up 49% to \$49 million. Even in the absence of future acquisitions it is likely that financial performance will be materially stronger in the current year as it will be the first full year contribution from the lifestyle parks acquired in previous periods and augmented by significantly higher manufactured home sales.

Net operating cashflow was strong at \$14.2 million and we anticipate further improvements in this result in future periods as we integrate recently acquired parks and continue to sell down constructed homes at our Settlers DMF villages, including Ridge Estate.

Consistent with prior years, it is anticipated that there will be a significant second half skew in cash earnings. This will principally be driven by manufactured home sales where we presently have 33 contracts or reservations in place however many of those won't settle until the second half when homes are delivered and installed. Winter is also a period of slow sales and occupancy growth whereas the post Christmas period is our peak selling and rent-up period.

## **SLIDE – CAPITAL MANAGEMENT**

Ingenia now has a very strong and stable capital position which will underpin our growth strategy.

Our primary gearing measure – Loan to Asset Value Ratio – was 34% as at year end. Today, post the recent capital raising and announced acquisitions, it is approximately 25% although it will trend up towards 35% as we deploy this capital into acquisitions presently under exclusivity or advanced price discovery.

Our existing and new lenders are very supportive of our Lifestyle Parks growth strategy and have recently agreed to a new and increased debt facility of \$175 million. This is presently being documented.

In September this year, Ingenia asked our existing and a small number of new securityholders to provide us with an additional \$89 million of growth equity to accelerate our consolidation of the Lifestyle Park market. This placement and accelerated rights issue were strongly supported and significantly oversubscribed. Thank you for your support.

Over the past 12 months I have marketed into Asia on four separate occasions and we now have a well understood and supportive investor base across Hong Kong, Singapore and Malaysia. Of course we remain very focussed on maintaining excellent engagement with our existing securityholders in Australia who have supported the Group's concerted growth strategy over the past two years.

The Group remains committed to increasing distributions over the next 12 months. Our challenge is to maintain the appropriate balance between quickly growing distributions and reinvesting free cash flow into an ever expanding pipeline of new acquisition and development opportunities.

We consider your capital to be a very precious and rare commodity and our stringent return thresholds remain in place. Our primary screen is a target unlevered internal rate of return of 15%. This is very important as we look to improve both our return on equity and return on assets.

The next 12 months will continue to see a focus on recycling capital from our lower yielding DMF business – and reinvesting this capital into strongly accretive Lifestyle Parks and development opportunities.

#### **SLIDE – EXPANDING INTO SE QUEENSLAND**

Approximately six months ago the Group flagged its intention to expand the Lifestyle Parks business into the South East Queensland market. Our first acquisition in Brisbane was announced in September and whilst due diligence is approaching completion on this exciting opportunity confidentiality prevents us from currently naming this park.

Earlier this week we announced exchange of a conditional contract to acquire the Big 4 Bougainvillia Holiday Park in Noosa on the Queensland Sunshine Coast. Bougainvillia is a well located mixed use park in a tightly held market and offers reconfiguration opportunities.

These two acquisitions, subject to finalising our due diligence enquiries, will add some 380 permanent and short term sites and approximately 200 development sites – which are subject to Council approval. They are also both immediately accretive to earnings.

#### **SLIDE – CONTINUING TO BUILD PRESENCE IN ESTABLISHED CLUSTERS**

At the time of the recent placement and entitlement offer the Group announced that it had executed conditional contracts to acquire White Albatross Holiday Park in Nambucca Heads and Canberra South Motor Park. Today I am pleased to announce that we have satisfied all due diligence enquiries and will settle White Albatross in early December. Over the peak

Christmas period we would expect White Albatross to gross well in excess of \$1 million in revenue when it typically operates at 100% occupancy.

Due diligence is progressing well on Canberra South and we will update the market once we have completed our enquiries.

These two acquisitions, subject to finalising our due diligence enquiries on Canberra South, will add some 715 permanent and short term sites and approximately 180 development sites – which are subject to Council approval. Again they are also both immediately accretive to earnings.

### **SLIDE – PORTFOLIO UPDATE**

The lovely outlook from White Albatross Holiday Park in Nambucca Heads which we have recently unconditionally contracted to acquire.

### **SLIDE – INGENIA BUSINESS MODEL**

In its simplicity Ingenia is a cash rent collector with a growing development or village expansion business.

I do think that on occasion the market overlooks the fact that every fortnight we will collect rent from approximately 3,000 seniors, the majority of whom receive a full or partial Commonwealth pension and Commonwealth rent assistance.

Our customer base is growing faster than any other segment of the population, our business is scaleable, has significant barriers to entry and limited new supply coming on line and Ingenia has a market leading position in both Rental Villages and Lifestyle Parks.

### **SLIDE – GROWING PORTFOLIO**

Ingenia today is a portfolio of 61 communities across Australia and growing.

Our strategy is to be the market leader in the communities in which we operate, providing quality yet affordable independent living homes for seniors. We are the largest owner and

operator of seniors rental communities in Australia and the largest owner and operator of Lifestyle Parks in NSW.

Whilst we are an acquisitive and expanding business, we are certainly not chasing growth for growth's sake. All acquisitions are subject to stringent return thresholds, exacting due diligence and are made in select and researched market clusters where we can leverage our existing operational capabilities to drive optimal performance and financial returns.

#### **SLIDE – SETTLERS LIFESTYLE (DMF)**

The deferred management fee model is the traditional retirement village business in Australia and Ingenia is the owner of eight communities comprising 831 homes across Queensland, New South Wales and Western Australia.

Whilst the Group is exploring opportunities to recycle capital from this segment into our growing parks business, we are certainly running the business as if we are a long term owner. Pleasingly we have had a very strong start to the current financial year with 14 new settlements, 11 resales and a further 26 homes under contract or deposit.

#### **SLIDE – GARDEN VILLAGES (RENTAL)**

Garden Villages is our seniors rental business comprising 34 communities located across all States of Australia except South Australia. Earlier this year we added another five poorly performing low-occupancy villages to the portfolio.

Garden Villages remains the cashflow engine room of the business and has enabled the Group to seed its Lifestyle Parks business.

Whilst there are a few further acquisition opportunities in the market, our near term growth is largely organic with a focus on growing village occupancies, pushing through above CPI rental growth in select markets and expanding operating margins. Whilst demand for rental communities remains strong, it is simply not economical to build a new community due to the relative cost of land and buildings and allowing a two year period for “rent-up”.

## **SLIDE – INGENIA CARE ASSIST**

Ingenia Care Assist is our facilitated ageing-in-place strategy that the Group launched in October last year. Since then it has been rolled out to 31 of our rental villages and has been a primary catalyst in improving resident retention and occupancy levels. It is also now beginning to attract new residents into our communities.

For our existing residents and their families the clear value proposition is being able to receive government funded care into their home without the disruption of having to move into a nursing home; for the accredited care provider it should provide improved productivity and enhanced delivery of care, and for Ingenia over time, improved occupancy levels. Ingenia does not charge its residents for this service – it is part of an improved value proposition.

In early 2015 the Group will trial Ingenia Care Assist in select Active Lifestyle Estate communities.

## **SLIDE – LIFESTYLE PARKS: INGENIA'S JOURNEY**

Ingenia has now been active in the Lifestyle Park business for approximately 18 months in which time we have built the leading portfolio in NSW and recently expanded into the ACT and SE Queensland. Our well researched strategy of acquiring well located parks and converting them across to affordable seniors living or mixed use communities has not been undertaken before in Australia on the scale and speed that Ingenia has embarked upon. Certainly our original investment thesis of the strong demand for affordable yet quality seniors homes pitched at a significant discount to the medium home price has held true.

We have also continued to finesse and evolve our strategy as we progress. Maintaining tourism and short stay accommodation in acquired parks where it represents the highest and best use of underlying land is an example of this.

Like any business venturing into uncharted waters we have made some mistakes – from which we have quickly learned. Principle amongst that was underestimating the complexity of having new homes built in a factory and delivered and installed on site. I am confident that this issue is now behind us based on new guaranteed supply agreements we have in place with our key builders.



Earlier this year I spent several weeks in the United States looking at the manufactured home park sector which provides affordable accommodation to some 19 million Americans or 6% of the entire population. I would categorise the Australian industry today where the US was 10 years ago in terms of market perception and penetration, competition and efficiency. The trip certainly validated for me that Ingenia's strategy is very sound and if we can execute successfully then we have many years of profitable growth ahead of us.

### **SLIDE – INGENIA'S GROWTH FOCUS (ONE MILE ESTATE)**

One Mile Beach is a community we acquired off-market in December 2013 for \$11 million. It offered an immediate cash yield exceeding 10% and we presently have an application before local government to upgrade the Park as well as incorporate approximately 40 new manufactured homes. Over the summer months the park operates at very high levels of occupancy and a beachfront cabin would rent out for approximately \$2,900 per week.

One Mile is a truly unique asset that cannot be replicated.

### **SLIDE – MARKET LEADING POSITION ESTABLISHED**

Ingenia is the largest owner of lifestyle and tourism parks across NSW. Across the 19 communities we now own or have under contract our business comprises:

- 1,637 permanent sites
- 1,587 short term and tourist sites; and
- 1,297 development sites

We also have over 20 communities presently under exclusivity or advanced price discovery.

### **SLIDE – LIFESTYLE PARKS (DEVELOPMENT)**

This is an image of a new home being delivered at Nepean River Village.

### **SLIDE – RAPIDLY ACCELERATING DEVELOPMENT BUSINESS**

I think this is probably the single most important slide in the presentation today.

A year ago we had:

- Two parks in delivery mode
- Eight homes settled or under contract; and
- Ten homes delivered and installed or under construction

Today it is a very different picture;

- Eight parks in delivery mode
- 48 homes have been settled, are under contract or deposited; and
- 92 homes have been delivered, installed or are under construction with another 10 about to be ordered at Stoney Creek Estate.

Whilst we have had some setbacks I think this slide provides a very clear picture that our development business is rapidly growing and will underpin future earnings.

### **SLIDE – SALES PERFORMANCE**

The year has commenced well in our Parks business with three homes settled and a further 33 homes under contract or deposited. To put this in context, last year we settled 15 homes which contributed approximately \$1.3 million to earnings. Based on our current year to date sales performance the profit contribution of the 36 homes now under contract, deposited or settled will likely exceed \$3.7 million – close to a 300% improvement on the prior year and we still have over half a year to go.

### **SLIDE – PROJECT SNAPSHOT: ETTALONG BEACH**

Ettalong was the Group's second Lifestyle Park acquisition back in April 2013. Earlier this year we were able to obtain development approval to build 31 new manufactured homes on land either vacant or used for tourism. A formal sales campaign was launched in August and today almost 84% of the 31 homes have either been contracted or deposited at prices as high as \$360,000.

Ettalong represents the Group's first broad precinct project which is now being replicated at several new projects including Lake Macquarie Holiday Village in Morisset and Stoney Creek Estate in Western Sydney.

### **SLIDE – PROJECT SNAPSHOT: MUDGEES VALLEY**

Mudgee Valley Tourist Park is a mixed use lifestyle and tourism park acquired in September last year.

There are a number of reasons that attracted Ingenia to Mudgee:

- Buoyant regional economy based around agriculture, viticulture, tourism and mining;
- Strong local employment and housing markets
- Ageing population
- No competing product for 100km meaning strong potential for significant pent up demand.

Seven new homes have recently been delivered to site and site infrastructure has been upgraded including the existing road network.

A VIP open day is scheduled for this Saturday (15 November), which will commence the formal marketing launch for this exciting longer term project.

### **SLIDE – PROJECT SNAPSHOT: MUDGEE TOURIST AND VAN RESORT**

Mudgee Tourist and Van Resort is also a mixed use lifestyle and tourism park acquired in October last year.

Ten new homes have recently been delivered to site and a site masterplan for separate permanent living and tourism precincts is well advanced.

Modest investment and repositioning of the strongly performing tourism business has also been made to maximise tourism profitability whilst preparing for the sale of new affordable seniors homes.

### **SLIDE – PROJECT SNAPSHOT: ALBURY CITYGATE**

Albury Citygate is a mixed-use lifestyle and tourism park acquired in August last year for \$2 million. Longer term the park has development potential for upwards of 120 new homes and an expanded tourism business.

It is a very large, well located site on the old Hume Highway but has been significantly underinvested in for many years.

New development approvals have been received from Council and to date five homes have been delivered to site and three homes have been settled or reserved.

Albury is a broad acre development project with considerable long term potential.

## **SLIDE – PROJECT SNAPSHOT: STONEY CREEK ESTATE**

Stoney Creek Estate is the renamed Town & Country Estate acquired in western Sydney in May this year. Over the medium term the existing tourism and short term accommodation will be closed and the Park converted to 100% permanent living as a broad acre development project.

To date three homes have been delivered to site, a further 18 are under construction and conversion and refurbishment of nine former family tourism cabins into permanent homes is underway.

A formal project launch is scheduled for late February. On 1 November we launched an internet only sales campaign which has already secured the first expression of interest with another pending.

Stoney Creek is expected to be a key contributor to second half sales.

## **SLIDE – PROJECT SNAPSHOT: LAKE MACQUARIE HOLIDAY VILLAGE**

Lake Macquarie is another large scale precinct project acquired in November last year.

Eight homes are presently under construction, of which three are under contract and a substantial civil works project is underway and scheduled for completion in January coinciding with the delivery of new homes.

Lake Macquarie Village is expected to be a key contributor to second half sales.

As you can see there has been a considerable ramp-up in the Group's development activities over the past 12 months and this will continue to occur as we acquire and integrate new communities.

## **SLIDE – UNDERTAKING EIGHT DEVELOPMENTS**

The photo behind me of Lake Macquarie Village in Morisset, one hour north of Sydney, demonstrates the type of large scale precinct projects the Group is now undertaking. A road

network is currently being put in place on this 1 hectare block of land with the first of 29 homes scheduled to arrive in January 2015.

Other large scale precinct projects include Ettalong, Lake Macquarie, Albury Citygate and Sun Country in Mulwala.

### **SLIDE – POOLSIDE TOURIST CABINS**

I will now ask Nikki Fisher to give you an overview of how we are maximising occupancy and performance across our growing tourism business.

### **SLIDE – SIGNIFICANT TOURISM BUSINESS**

Thank you Simon.

Today I am delighted to provide a brief overview of the Group's tourism strategy.

Tourism now represents a viable and growing cash yielding platform and is a supporting and complementary pillar to our core business of seniors living. Tourism also provides a very attractive holding income whilst we advance our development masterplans.

Our tourism business has significant scale, with over 1,000 established tourism and short term sites. The tourism product offering includes deluxe beachfront villas through to more traditional caravan and camping sites.

Our key business focus is to grow occupancy and increase revenue, maximising returns for our securityholders.

The primary market segment representing close to 50% is the family market, who are looking for value for money; great locations with exceptional service. The second largest segment with 25% of visitation is the active senior.

## **SLIDE – ACTIVE HOLIDAYS - GROWTH STRATEGY 1**

When you consider our core market segments; it is clear the growth opportunities are in the family and seniors market.

Over the last 12 months we have undertaken an in-depth review of the holiday travelling market to understand how we could provide immediate and measurable growth in these key segments.

Today we have announced the expansion of our affiliation with BIG4 Holiday Parks; with Nepean River Holiday Village and Mudgee Tourist and Van Resort now joining our existing affiliated park BIG4 Valley Vineyard at Cessnock. By affiliating these assets, our family friendly parks will benefit from the extensive member network provided by the popular BIG4 Holiday Parks brand.

To put it simply; tourism is a high touch, customer driven business; and our aim is to create customers for life, as regular repeat business underpins and guarantees revenue.

## **SLIDE – ACTIVE HOLIDAYS - GROWTH STRATEGY 2**

The majority of tourism bookings are now made online.

Establishing a standard digital platform across the portfolio has been the key driver of growth across our tourism business. Each park now has a dedicated website; searchable by destination, which provides guests with all the information they would need when choosing accommodation.

In conjunction with our direct online booking platform; we have entered into partnerships with industry leading Online Travel Agents (OTA's) such as Wotif. Bookings conducted via OTA's now account for close to \$100,000 of revenue monthly (and growing).

Utilising digital marketing has been a critical and cost effective way to interact with our growing database of 20,000 customers regularly.

Apart from two key appointments we have utilised the existing management team to support tourism growth.

Tourism is an important and expanding pillar of the group, with significant opportunity for growth. Finally, it provides a unique platform for Ingenia to interact with its core seniors living customer, their friends and families. As our customers have holidayed here all their life – why not turn a holiday into the everyday.

### **SLIDE – INVESTOR DISCOUNT CARD**

We are excited to reward our investors by offering a 25% discount on accommodation across our tourism assets.

The Investor Discount Card will be distributed annually to all current securityholders and will be valid for 12 months from issue. Please note, certain terms and conditions will apply. It is very simple to use; you just advise the reception staff when booking to receive the discount.

We look forward to seeing investors in our tourism assets.

Thank you; I will now hand back to Simon.

### **SLIDE – RAPIDLY EXPANDING LIFESTYLE PARKS BUSINESS**

I think this slide summarises very well where our rapidly expanding Lifestyle Parks business is at the moment.

A year ago we had two assets and two properties in development mode. Today we have 15 assets, 4 assets under contract and eight active developments and we are continuing to grow.

A year ago we had six homes under construction. Today we have 60 homes under construction and will shortly be ordering another 10 for Stoney Creek Estate.

## SLIDE – FOCUS

Ingenia has a very exciting and rewarding outlook ahead. We have first mover advantage in a market where our top ten competitors own less than 5% of the addressable market. We are in the unique position of not being constrained by opportunity or capital. There are few companies in Australia at the moment that can say the same.

The next 12 months should see some further significant milestones achieved:

- Our primary focus is to deliver on our manufactured home development strategy. This is the key catalyst to unlocking further securityholder value;
- We will have invested the proceeds from the recent placement and entitlement offer and associated debt and own a portfolio of some 25 Lifestyle Parks across NSW, ACT and South East Qld;
- The roll-out and operation of our Ingenia Care Assist initiative will continue and will be a key driver in growing Garden Villages occupancy towards a medium term sustainable 92% occupancy.

All existing and new assets will be continually assessed for performance and those that cannot meet minimum threshold returns or are no longer a strategic fit will be divested and their capital recycled into new projects.

Based on current market conditions and operating performance, we reaffirm our intention to pay an interim distribution of 0.65 cents per security for the 2015 financial year and with a view to a possible increase in final distribution, subject to the capital requirements of the business.

I would like to thank all securityholders for your attendance today. There are many faces I recognise in the audience and I thank you for your support over the past five years.

I would also like to especially thank the Ingenia team for their tremendous efforts over the past year which has seen us exit overseas markets, make 18 acquisitions and quickly build a market leading position in a new segment. I greatly look forward to working with them over the next 12 months in what I am sure will be an equally challenging and exciting year.



Equally I would also like to thank Amanda, Norah, Phil, Rob, Jim and our Company Secretary Leanne for their support and guidance over the past year. The management team takes great confidence in having such a committed, inquisitive and supportive Board.

Ladies and Gentlemen, thank you for your time today and your continued support of Ingenia Communities.

I will now hand back to the Chairman for the formal business of the meeting.

**ENDS**

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**About Ingenia Communities Group**

Ingenia Communities Group (ASX Code: INA) is a stapled property group comprising Ingenia Communities Holdings Limited (ACN 154 444 925), Ingenia Communities Fund (ASRN 107 459 576) and Ingenia Communities Management Trust (ARSN 122 928 410). The Responsible Entity for each scheme is Ingenia Communities RE Limited (ACN 154 464 990) (AFSL415862).