# ASX / Media Release

**27 August 2013**

## Ingenia announces 2013 full year results and further MHE acquisitions

Key highlights:

- Profit from continuing operations of $2.8m, up 95% from prior year
- Net loss of $10.3m principally attributable to finalisation of US divestment foreign currency accounting reclassification
- Final distribution of 0.5¢ per stapled security – targeting near term distribution growth
- Improved second half sales performance and continuing growth in Garden Villages increased rental occupancy to 85%
- Announced acquisition of two MHEs in Mudgee NSW – immediately accretive with unlevered IRR >15%

Ingenia Communities Group (ASX: INA) today announced its full year results for the year ended 30 June 2013. Profit from continuing operations for the year was $2.8 million, up 95% on prior year due to continuing growth in rental occupancy and strong second half settlements. Overall the Group reported a net loss of $10.3 million, principally attributable to the previously reported $17.5 million non-cash US foreign currency translation reserve reclassification, and partially offset by gains from the US Seniors divestment.

Ingenia has declared a final distribution of 0.5¢ per stapled security, with payment to be made on 20 September 2013. The Group is committed to growing distributions in the near term while maximising value to securityholders through prudent capital allocation across the portfolio.

Ingenia Communities Chief Executive Officer Simon Owen said, "Today's results show the first signs of the successful turnaround we have been working on in our core Australian business following the exit from our US businesses and deleveraging of the balance sheet".

"We are very much in a sweet spot of the market at the moment – demand is improving, we have a significant pipeline of highly accretive acquisition and development opportunities in place, we are well advanced in executing our affordable seniors living strategy and our balance sheet is strong. Our focus on cash yielding affordable senior communities provides Ingenia with a business model which is clearly differentiated from our peers."

"Ingenia only entered the Manufactured Home Estate market in March this year and since then we have announced the acquisition of six villages which once integrated are expected to be a key driver of earnings growth."

"Operationally, the residential property markets in which we operate have shown some clear signs of improvement which has led to a strong second half in conversion sales."

"Activity in the seniors living sector remains subdued due to a continuing lack of access to capital and repositioning by major retirement sector participants. There are many distressed opportunities in the market, particularly in the deferred management fee (DMF) sector however Ingenia is unlikely to invest any additional capital into this space with the exception of expanding our existing high occupancy villages."

### Financial Highlights

The Group's FY13 results are in line with strategy and demonstrate significant growth in our Australian business and strong underlying operating cashflows.

| Key Metrics | | 30 June 2013 | | 30 June 2012 |
|---|---|---|---|---|
| Net profit / (loss) | $m | (10.3) | ▼ 131% | 33.6 |
| Profit from continuing operations | $m | 2.8 | ▲ 95% | 1.4 |
| Operating income – continuing operations | $m | 3.3 | ▲ 63% | 2.1 |
| Operating income - total | $m | 5.9 | ▼ 21% | 7.4 |
| Operating income per security | cents | 1.3 | ▼ 24% | 1.7 |
| Net cashflow from operations | $m | 11.2 | ▲ 118% | 5.1 |
| Loan to value ratio (LVR) | % | 38 | ▼ 21% | 48 |
| Net asset value (NAV) per security | cents | 34.4 | 0.3% | 34.3 |

The new MHE business which now comprises six villages in NSW is expected to be a key driver of near term earnings and cashflow growth.

### New Manufactured Home Estate Acquisitions

As separately announced today, the Group has signed contracts to acquire the Mudgee Valley Tourist Park (Mudgee Valley) for $4.0 million and Mudgee Tourist and Van Resort (Mudgee Tourist) for $7.2 million. Both acquisitions will be immediately accretive upon settlement and will add 115 homes and over 250 tourism and development sites. Further details on these two acquisitions can be found in today's accompanying ASX Announcements.

### Portfolio Update

Rental and MHE portfolios now account for 55% of Group's total portfolio by value. This will support a growing recurrent cash yield which will underpin future acquisitions, development activities and distributions to securityholders.

Garden Villages - Rental

- Occupancy increasing to 85% as at 30 June, on track for long term target of 90%
- EBIT up 10% to $7.7 million
- Launch of ***Ingenia Care Assist*** to facilitate delivery of government funded care into our communities and grow occupancy and earnings

Occupancy grew in most markets with the exception of New South Wales which was impacted by demand and operational issues at Mardross Gardens and Taree Gardens.

During the year the Group acquired an additional five villages in existing market clusters at compelling value and further strengthening Ingenia's position as the largest owner and operator of seniors rental villages in Australia.

One of the value extraction levers in this portfolio is finding ways to extend resident tenure and reduce departures. After significant analysis, the Group has today announced its move into the home care market by partnering with accredited providers to deliver government funded care services into our rental villages. This should drive significant increases in both occupancy and sustainable earnings. The newly created 'Ingenia Care Assist' program is being implemented by an industry experienced and well networked aged care executive.

Settlers Lifestyle - DMF

- Strong pick-up in second half conversion sales as general residential property markets improve
- EBIT up marginally to $5.6 million
- Next stage construction underway at Ridge Estate in Hunter Valley and scheduled to commence in coming months at Gladstone Gardens. Both supported by strong levels of pre-sales commitments

In the first half of FY13, challenging market conditions particularly in South East Queensland continued to depress sales particularly at our Noyea and Forest Lake villages. Market conditions across all regions have steadily improved over the second half which resulted in an encouraging 32 conversion settlements achieved across the portfolio, grossing $5.5 million (compared to 21 settlements for first half).

Demand also improved across our traditional DMF villages in WA, with the refurbishment of resale homes proving to be successful in accelerating settlements and releasing accrued deferred management fees.

Four of the nine DMF villages are currently committed to different stages of expansion with particular success in the Hunter NSW market. High demand in Cessnock Gardens brought forward the next stage of development, while Ridge Estate in Maitland commenced its 17-unit Stage 2 construction works in July 2013 with solid commitments in place for its new homes.

Active Lifestyle Estates - MHEs

- Recent acquisitions performing in line with feasibility forecasts

- Three new homes delivered to Grange village at Morisset – two have quickly sold including home 201 which was at a site record of $300,000
- EBIT contribution of $0.4 million (two villages – three month contribution)

In its three months of operations, Ingenia's first two MHEs performed to expectations. Local community marketing in Morisset has led to strong new sales and resales. The first manufactured home brought to site sold at its listed price within four weeks.

Strong enquiries were also evident at the Ettalong Beach Holiday Village in Gosford, where quick resales and strong demand has allowed the Group to increase site rentals for incoming residents.

<u>New Zealand Students</u>

The 15-year anchor leases directly to Victoria University of Wellington (VUW) and Wellington Institute of Technology (Weltec) complete Ingenia's exit from student accommodation operations and repositions the assets as a passive and stable rental yielding portfolio.

Upon finalisation of refurbishment works in January 2014, the Group will prioritise sale options for this portfolio. Multiple parties have made approaches in recent months expressing interest in acquiring the long WALE portfolio which supports the underlying value and will assist an eventual exit.

**Valuations**

During the year, external valuations were completed on 21 of the Group's 40 Australian communities representing 77% of total portfolio by value.

Rental village valuations have held steady at circa 9.5% - 10.5%. To date there has been no tightening in rental village cap rates notwithstanding significantly improved operational performance and low interest rates. The fact that Ingenia has been the major purchaser of distressed assets from a mortgagee in possession has not assisted in improving valuations.

Completed DMF village valuations have held steady at circa 13.5% - 14.5%. Over the past year there have not been a lot of transactions to provide guidance for significant movement in either direction.

The valuation of the New Zealand student portfolio was impaired by a second half write-down of $6.4 million due to a combination of earthquake strengthening related cost variations and a softening in the "as complete" cap rate from 7.2% to 7.75% based on a recent comparable transaction. Whilst a position for maintaining the cap rate could be justified, a recent market transaction meant a conservative position was more appropriate for this portfolio which is considered non-core and held for sale.

**Capital Management**

Following several years of geographic simplification, improved operating performance and deleveraging the Group now has a solid balance sheet which will underpin future growth including acquisitions and expansion of existing communities.

The Group remains committed to maintaining a disciplined approach to capital management and existing threshold return requirements (forecast unlevered IRR >15%) will be kept in place. Appropriate gearing will be maintained as the Group looks to expand its operational footprint and development activities including an Australian LVR target of between 30% – 35%. LVR as at 30 June 2013 was 38% due to placement proceeds not yet being applied to debt. Post settlement of the four MHE acquisitions announced after year end, LVR will be 35%.

Management is currently assessing the divestment of several low yielding assets to recycle the capital into its higher returning MHE and development business.

In June 2013 the Group undertook a modest institutional placement to assist in funding five immediately accretive MHE acquisitions, four of which have been subsequently announced. The placement was significantly oversubscribed and the security price has rallied strongly subsequent to the raising.

**Outlook**

Looking forward, the Group will continue to build its scalable platform of affordable, cash yielding seniors living accommodation. The MHE market will be a dominant focus of Ingenia's growth to drive Group earnings and development activities.

Another key focus of management and likely contributor to earnings growth will be the build out of the development pipeline attached to existing Ingenia communities. This presently comprises over 629 homes with an end value of over $152 million. The MHE business model which is both capital light and relatively low risk will support the Group's strategy to be delivering 300 new homes per annum in the medium term.

Operationally, management will continue to drive improved operational and financial performance from its existing portfolio including recently acquired MHE communities. Within the Garden Villages portfolio, the roll-out of our new home care initiative, Ingenia Care Assist, is expected to be a key driver of both rental occupancy growth and improvement of resident tenure in the villages.

Ingenia's FY13 results presentation will be webcast via www.ingeniacommunities.com.au on Tuesday 27 August 2013 at 11:00am (AEST).

**For further information please contact:**

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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).

Ingenia Communities Group is a leading operator, owner and developer of a diversified portfolio of seniors housing communities. It has 44 assets in Australia, comprising over 3,200 units.