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Ingenia Communities 2019 Annual General Meeting

CEO Update

SIMON OWEN – MANAGING DIRECTOR and CEO

Good morning everyone. It's great to be here and I'm really excited to be presenting to you today on not only Ingenia's results, but more importantly the Group's future plans. Ingenia's performance over the past 12 months again demonstrates that our strategy of owning, managing and developing a leading portfolio of lifestyle and holiday communities is delivering strong sustainable results for securityholders.

Today also represents my 10-year anniversary as CEO with Ingenia and our predecessor organisation the ING Community Living Fund. Much has changed over that period. Our market capitalisation has grown exponentially from \$52 million to today over \$1.1 billion. And the share price has increased more than six-fold. But what gets me excited is that the best years for Ingenia lay ahead of us.

We have an incredible growth runway in place and our sector leading development pipeline of over 3,870 home sites is larger than our two biggest competitors combined. We now have ten communities under development, including Freshwater, our first project with Sun Communities.

Ingenia is a clear sector leader of lifestyle communities across Australia. Our business is underpinned by owning land and collecting rent. We presently have over 9,370 income yielding homes, cabins and sites that we own and/or manage, and this number continues to grow every week as we settle new homes, add new rental and tourism cabins across the portfolio and close on acquisitions. Combined with our Ingenia Gardens business, our annual revenues are now tracking at over \$250 million. We generate rent inflows of over \$2 million per week. Every week.

And during the most challenging residential market in a decade, looking back as far as the Global Financial Crisis (GFC), Ingenia announced our strongest results ever. We sold more homes at higher prices, at higher margins and higher rents than ever before.

The size of the lifestyle community market in Australia is growing and so is Ingenia's market share. It remains our absolute resolve to be the clear market leader as measured by new home settlements, securityholder returns, staff engagement and, most importantly, resident and customer satisfaction and experience.

I'm now going to briefly touch on our financials – as a qualified accountant and former CFO myself I can assure all our shareholders today that the management team spends considerable time every week and month end focussing on “the numbers”.

As you can see from the slide on the screen the majority of our key financial metrics were up strongly on the previous year; revenue up 21% to \$228.7m, EBIT up 26% to \$61.5m, underlying EPS up 19% and operating cash flow up 26%. These improved returns – which I note were in a very challenging residential market – were principally driven by:

- a) the growth in our development business which delivered 336 turn key settlements (up 17% on the prior record year) with a 19% increase in the average sales price achieved; and
- b) the growth in rental income from our lifestyle and holiday business which was up by 10% on the prior year.

Distributions growth was more modest – up 4.2% - as an increasing portion of our profits were reinvested into accelerating the buildout of our development pipeline and acquiring additional land.

I would note that Statutory profit declined from the prior year by 14%. This was largely as a result of transaction costs and stamp duty on new acquisitions, a fair value loss on investment property which was driven by the realisation of development profits on high margin projects, the write down of some non-core assets and a mark to market loss on derivatives.

In July we announced the acquisition of the Eighth Gate funds management platform for approximately \$6 million as well as a further \$13.8 million investment in the underlying funds. The key drivers behind this transaction included:

- adding over 1,600 manufactured homes and holiday sites to the business as well as a DA approved Greenfield site in Ballarat Victoria;
- increases our lifestyle and holiday sites by over 26%
- potential longer-term deal flow optionality – Ingenia has the right to acquire the assets if any of the funds are wound up
- platform is expected to generate over \$2 million in management fees per annum as well as potential outperformance fees.

The acquisition of Eighth Gate provides Ingenia with further capital flexibility in assessing how we fund future acquisitions and development – our options now include utilising undrawn debt, co-investment through our Joint Venture (JV) with Sun Communities, reinvesting internally generated cash flow and investment within Eighth Gate. In a highly competitive market, having access to multiple sources of capital provides Ingenia with a considerable advantage when compared to many of our peers.

On 16 October 2019, the Group announced our largest ever capital raise – for \$131 million – to acquire three established communities, two parcels of expansion land adjacent to existing communities, our share of a new greenfields site for our JV with Sun Communities and \$18 million of future growth capital.

It is pleasing to note that \$110 million of this raise was via an Entitlement Offer which provided every investor (in nominated countries) with the ability to acquire two additional Ingenia shares at \$3.93 for every 17 shares they owned at the time. We had strong demand from investors, and it is great to be able to report that the Retail Entitlement Offer had a 75% take-up.

Subsequent to the equity raise, the Group's trading price has performed strongly and is currently up more than 7% on the pre-raise price.

Today the Group is pleased to announce the first of the confidential acquisitions underpinning the capital raise. Colonial Village is a well-presented mixed-use community located in Taigum in the northern suburbs of Brisbane. The community comprises 110 permanent homes and 40 short term cabins and units as well as development potential for another 10 homes. Settlement is due to occur on 28 November and the ingoing yield is approximately 7.5%, with multiple value add opportunities identified. Colonial is a village which I had my first meeting with the vendors over five years ago which demonstrates the importance of personal relationships in this industry.

Ingenia has multiple levers in place to drive longer-term, sustainable earnings growth:

1. Utilizing our balance sheet, we will continue to look for additional on-strategy accretive acquisitions such as Colonial Village. The Group has a dedicated acquisition team of seven people and presently has multiple opportunities under assessment;
2. Our newly acquired funds management platform – Eighth Gate, creates new fee and income streams and also allows us to access third party capital to assist with the funding of new opportunities;

3. Our new greenfields development JV with Sun Communities provides a capital efficient mechanism for Ingenia to create new lifestyle communities as well as allowing us to collect accretive development management fees. Ingenia also retains the option to acquire Sun's 50% interest in any completed developments; and
4. Ingenia has the largest development pipeline – some 3,870 new home sites – in the sector as well as the ability to add a further 300+ rental and tourism cabins. Building out the development pipeline alone would add approximately \$32 million to annual ground rents.

Latitude One is the Group's first lifestyle Greenfield project, located at Port Stephens north of Newcastle.

Since launch in November 2017, it is pleasing to report that we have settled 123 homes and have a further 55 deposited or contracted. It is one of the fastest selling lifestyle communities developed in Australia and has been a great proving ground for the Ingenia team to test new home designs, construction methodologies, sales and marketing strategies and resident value propositions. We have also learned a number of valuable lessons along the way and these learnings have been applied to our new communities now under construction – Plantations on the NSW mid north coast, Hervey Bay and Freshwater just north of Brisbane.

We have recently sold a new three-bedroom home for \$795,000 and in the coming months we will be releasing our most premium architect designed waterfront homes – in an exclusive enclave of nine properties.

Ingenia Lifestyle Hervey Bay is the Group's third Greenfield community – which is located on a former golf course. To date 26 deposits and contracts have been secured with first residents scheduled to move in next month. This coming weekend we will be opening our display village which based on prior experience is generally a key sales catalyst.

As at 11 November the Group has settled 89 new homes which is up 21% on where we were at the same time last year. Margins remain consistent with what was achieved in FY19. We also have a further 243 homes under contract or deposited which gives the Group good visibility into where year-end settlements will land.

I think it is fair to say that general market conditions for selling new homes have improved in the past six months, however consumers remain cautious and time on market – a key leading indicator of sales velocity – remains elevated compared to several years ago. As demonstrated by our record settlement performance in the last financial year I believe our focus on the more affordable “downsizer” market provides Ingenia with considerable resilience through the cycle.

Since developing our first home in 2014 the Group has grown settlement volumes at a compound annual growth rate of 131% and the 917 homes settled to date adds over \$7 million per annum to cash rents.

Before I close with guidance, I would just like to quickly share with you a few examples of the many community and charitable partnerships that Ingenia and our employees contribute to every year.

Last year Ingenia established a partnership with Ronald McDonald House Charities® Australia to provide both financial and in-kind support. In addition to contributing to their family rooms located in eighteen hospitals in Australia, we provide support to their learning program for children who are in hospital away from their school. We are also refurbishing a bathroom at their Randwick House. There is considerable alignment with our holiday communities where families with young children are a core market for Ingenia. In addition, it provides many opportunities for team building for the Ingenia team and engagement for our residents.

This is a program we are very proud and honoured to be associated with and many staff have volunteered considerable personal time, including myself, to prepare meals for families staying in Ronald McDonald House Charities® Australia accommodation whilst their children are receiving medical assistance away from home.

We also support many local charities and community groups – including the RSPCA, Cancer Council, Bush Kids and numerous schools and sporting clubs - through sponsorships, donations and the involvement of our team and residents.

Last Thursday night the peak NSW industry body, the Caravan & Camping Industry Association, held their annual awards of excellence. I am pleased to report that Ingenia won a record five awards on the night, including Land Lease Living Community of the Year and Employee of the Year in both the Holiday Park and Land Lease Community categories. This was followed up on the Friday night with Ingenia Holidays Cairns Coconut receiving a Gold medal at the Queensland Tourism Awards.

Today I am pleased to confirm the Group's earnings guidance – noting that we did upgrade EBIT guidance several weeks ago following the capital raise and supporting acquisitions.

EBIT guidance is now 15-20% growth - up from 10-15% and EPS guidance remains 5-10% growth.¹ It is noted that the FY19 EBIT was up by over 26% and EPS by 19%. The Group has considerable momentum in place.

¹ Guidance is subject to no material adverse change in market conditions and timing of key development projects.

Moving forward we don't intend to provide a new home settlements target – our business has many growth levers of which new home sales is but one. However, we do expect settlements in the current year to exceed last year's record 336 new home sales.

Our primary focus for the balance of the year is to drive operational improvement in existing communities, successfully integrate and operate newly acquired communities, accelerate the construction and sell down of our sector leading development pipeline, continue to acquire existing communities and assess opportunities within our newly acquired funds management platform.

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 ongoing your support as we seek to acquire, develop and operate Australia's leading lifestyle and holiday communities.

I would also like to especially thank the Ingenia team of over 700 dedicated employees for their continuing commitment to performance and superior customer and resident experience, as well as the 6,100 people who live in an Ingenia community and the more than 395,000 people who chose to stay in one of our holiday communities over the past 12 months.

I greatly look forward to working with the team over the next year in what I am sure will be another busy, challenging and exciting year.

Equally I would also like to thank Jim, Amanda, Valerie, Rob, Andrew, Gary and our Company Secretary Vanessa 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