



Eureka Group Holdings Ltd

ABN 15 097 241 159

Suite 2C/D, Level 2

7 Short Street QLD 4215

PO Box 10819, Southport BC QLD 4215

Phone: 07 5568 0205 **Fax:** 07 5568 0206

Email: admin@eurekavillages.com.au

22 November 2017

Dear Shareholders

RE: Eureka Group Holdings Limited (ACN 097 241 159) – ASX code EGH

You may recently have received a letter from Cooper Investors Pty Limited (**Cooper Investors**) noting its frustration with the performance of Eureka, its board of directors (**Board**) and me in particular.

As a substantial shareholder in Eureka I share your disappointment in the Company's performance in the last 12 months. However, I do feel it important to give you some additional background to my involvement in the Company and to specifically respond to the comments made by Cooper Investors which, in the Board's opinion, could give rise to an unfair assessment of the Company's position as it stands today. I do so as follows:

Background

1. In late December 2013 I was invited to join the Eureka Board. At that time Eureka had a market capitalisation of around \$5 million. It was suggested that I should aim to grow the Eureka business in a similar manner to the previous ASX listed company in which I was involved over an 8 year period and resulted in a profitable exit for all shareholders.
2. On my appointment, I immediately undertook a review of the current business model and found a business that operated as a management rights owner. This meant that the Company, whilst doing all the hard work of running the villages, creating tenant demand, and feeding and caring for the residents, was at best breaking even whilst the owners of the underlying real estate were reaping the benefits.
3. It quickly became clear to me that this model was not sustainable and would not attract high quality long term investors. With the support of the Board, I introduced the Eureka "Buy and Build" strategy whereby Eureka transitioned away from "operator" only to "Owner Operator". I was involved with other investors in investing sufficient funds to retire existing convertible note holders and strengthen the balance sheet to ensure the Company was able to acquire its first 2 freehold villages.

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ABN 15 097 241 159

7, 486 Scottsdale Drive

Varsity Lakes QLD 4227

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4. Those 2 initial village acquisitions were the beginning of what has become the Company's current portfolio of around \$100 million of high quality retirement village assets sitting on the Eureka balance sheet.
5. This acquisition strategy was attractive to institutional investors and our bankers and they have supported the growth. We have confidence in the acquisition strategy and strongly believe we have laid the foundations to build a significant company.
6. Your current Board and management team has worked diligently to build the only ASX listed company that specialises in the "low cost rental retirement model for independent retirees" segment of the Aged Care and Retirement sector. Other companies have tried and failed in this segment.
7. We are proud that we have grown so quickly but acknowledge there is still a long journey ahead of us. We are proud that we have been able to vastly enhance the experience of our village residents. We are also delighted that we have been able to form a partnership with Blue Care, Queensland largest in-home care provider. We are also happy, as you should be as shareholders, that Eureka is enhancing the lives of nearly 2,500 residents on a daily basis in an economic environment where our current residents, given their financial position, have few other residential choices. We are confident that we are achieving success in circumstances where successive governments have shown an inability to deal with the growing problem of residential care for independent retirees without savings.
8. Notwithstanding the social impact that the Company is having and will continue to have as it acquires more facilities, the Board is well aware of the demand of shareholders to expect attractive returns from an expanding small cap company. It is therefore appropriate that I openly respond to the issues raised by Cooper Investors and outline the measures we have taken to address them. I propose to also deal openly with these issues at the Annual General Meeting (AGM) and I urge you to attend.

Issues raised by Cooper Investors

Poor investment decisions by the board in relation to non-core activities

9. Concern has been expressed about both the Terranora Project and the Couran Cove Project, both of which have and will provide significant profits to Eureka.

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10. Terranora, upon acquisition, was a core asset with substantial prime land attached to it. Due to the strength of the Gold Coast property market leading into the Commonwealth Games we decided to strata title and sell the existing units that were larger than our traditional low cost rental model and retain the surplus land to potentially develop a purpose built low cost rental retirement village or on-sell to a typical house and land package developer for sub-division.
11. Unfortunately, we underestimated the time it would take to secure approval for the strata/subdivision. We have now obtained DA approval and we expect to achieve a very profitable outcome. Eureka has not been prejudiced by this transaction and it will continue to be value accretive.
12. Couran Cove is a large mixed use resort close to the Gold Coast and Sanctuary Cove. It has an area known as the Eco Precinct where there remains a significant opportunity to profit strongly from low cost rental accommodation and the operation of management rights.
13. Whilst this was a well-intentioned acquisition, the management rights, given its scale and complexity became a significant distraction to the core retirement village operations and a decision was made not to continue with the management rights business at Couran Cove.
14. The Board stands by its decision to invest at Couran Cove and believes it will provide profits to the Company over time via further development or recycling of the asset base.

Poor investment decisions by the board in relation to recent acquisitions

15. Amber Lodge is one of 27 Villages acquired by Eureka over the past 3 ½ years. It is correct to say that it has been a disappointing acquisition. Amber Lodge passed the usual financial due diligence process we undertook at the time of acquisition. From a management and Board perspective we just got it wrong and everything that could go wrong, did so. This resulted in a significant writedown of \$2.5 million.
16. Eureka has normally bought well across its underlying real estate portfolio, with multiple village valuation uplifts creating significant property portfolio value enhancement which has and will benefit shareholders significantly in the long term. One unsuccessful purchase should be put in the context of an overall well executed acquisition strategy.

Fees and related party transactions

17. Eureka's asset portfolio has grown significantly over the last few years. The directors have received remuneration well below market rates for the time and effort expended and all

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related party transactions have been fully disclosed to shareholders in annual reports and carefully examined by our auditors EY.

18. Specific reference has been made to payments for investor relations and capital raising fees. The Company has raised capital of \$39,154,000 since April 2014. The total fees paid to director related entities and other corporate advisers represented 4.87% of the capital raised. For a small cap company which had been performing poorly in earlier years and was establishing a new business model these fees are certainly at a competitive market rate.

Substantial share price underperformance

19. It is fair to point out the significant under performance of the Eureka share price. Both Mr McIntosh and I have substantial holdings in the Company and feel the pain the same as all shareholders.
20. The share price in our view does not reflect the quality of our property portfolio or our business prospects. There was selling pressure on the stock following a wind up of the Hunter Hall fund portfolio, which was followed by a half year result not received well by the market. The continued planning delay at Terranora and the Couran Cove exit heightened negative sentiment, which accelerated a downward trajectory for the share price.
21. With the significant management changes made in 2017, the Board considers that it is in a strong position to start another exciting growth period.

Alternative Directors

22. Cooper Investors, supported by other institutional shareholders, has proposed the appointment of Murray Boyte and Sue Renkin as non-executive Directors of Eureka.
23. Coincidentally, Murray is well known to me and was already on the short list of possible candidates for the Board's consideration. I had also been in discussion with two other candidates prior to receiving Cooper Investors' letter.
24. I am very pleased with Cooper Investors suggestions and I am confident that Murray and Sue will add to the strength of the Board. Accordingly, the Board has offered positions to both of them to take effect from the close of the AGM. It is intended that Murray would become Chairman of the Board and Sue the Chair of the Audit and Risk Committee.
25. I will stand down as Chairman immediately after the AGM and assume the role of non-executive director.

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26. The Board is pleased with the constructive approach taken by Cooper Investors to work on a suitable resolution to the issues raised in the letter to shareholders. The strengthening of the Board with additional skills and expertise is undoubtedly in the best interests of the Company and we welcome Murray and Sue to the Board. In light of these developments, I am pleased to inform shareholders that Cooper Investors has advised me that it has decided to withdraw its objections to my re-election. The Board can now move forward and continue to focus on creating long term value for all shareholders.

The board looks forward to seeing you at the AGM on Thursday.

Yours Sincerely

Robin Levison

Chairman

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