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### **ASX Announcement** 26 October 2023

#### 2023 Annual General Meeting – Chairman's Address

Eureka Group Holdings Limited (ASX: EGH) releases the attached presentation which will be presented at this morning's Annual General Meeting, commencing at 10.00am Brisbane time.

This announcement was approved, and authorised for release, by Eureka's Board of Directors.

For further information, contact Murray Boyte, Executive Chair on 07 5568 0205.



General Meeting

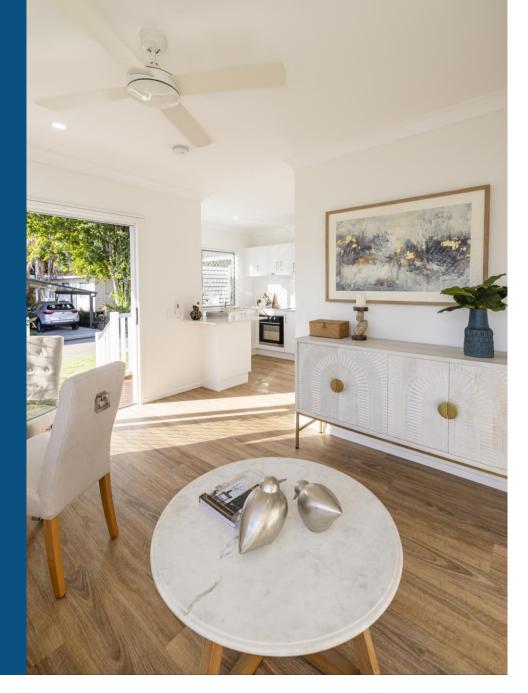
October 2023

eureka

# **Meeting Overview**

Chairman's Address

Formal Items of Business





# Key achievements in FY23

Eureka has a sound financial base, a sustainable business model and significant growth opportunities

Strong results	<b>√</b>	<ul> <li>22% revenue growth and 19% underlying EBITDA growth, reflecting strong resident demand, rental growth and asset acquisitions</li> <li>Maintained high portfolio occupancy during the year and achieved 99% at year end</li> </ul>	
		<ul> <li>Independent valuations undertaken on majority of assets, uplift of \$25.3m</li> </ul>	
Portfolio value uplift	<b>√</b>	Valuation uplift during the year driven by increased village earnings and capitalisation rate adjustment due to the re-rating of the strength of our sector	
		Acquisition of 3 villages (Tamworth, Horsham and Eagleby) delivered 151 additional units	
Acquisitions and		<ul> <li>Acquired 37 units in managed villages as part of the individual unit acquisition strategy, improving the return on those units</li> </ul>	
developments	<b>V</b>	Disposed of two lower performing managed villages comprising 91 units	
		51-unit Brassall development is well-progressed, with stages 1 and 2 (22 homes) completed, fully leased and occupied	
		Successful \$28.2m Entitlement Offer in November 2022	
Capital management	<b>✓</b>	Gearing reduced from 40.8% at 30 June 2022 to 32.1% at 30 June 2023	
		Resident first approach to ensure sense of belonging and community to extend tenure	
Resident-first approach		Community room upgrades across 20 villages nearing completion	
resident met approach	•	<ul> <li>Roll-out of solar energy program continues with 13 villages completed and a further 7 in CY2023, reducing resident power bills</li> </ul>	类人
		Significant restructuring has occurred during the past 18 months	
Postructuring for growth		Improvements in asset quality, operating platform and people are reflected in financial performance	4
Restructuring for growth	V		人
		Established a strong platform which will underpin a strategy of organic growth and targeted acquisitions	V.V

## FY23 Financial Highlights

Revenue and earnings growth driven by strong resident demand, rental growth and property valuations

\$36.4m Revenue 22% FY22

Like-for-like revenue growth 10%

\$12.6m Underlying EBITDA<sup>1</sup> 19% FY22

Like-for-like village EBITDA growth 13%

\$19.2m
Profit after tax
134% FY22

EBITDA growth and property valuation uplift

45.0 cents
NTA per share
18% FY22

Whole-of-portfolio valuation completed

6.97 cps EPS 100% FY22 1.34 cps
FY23 dividends
6% FY22

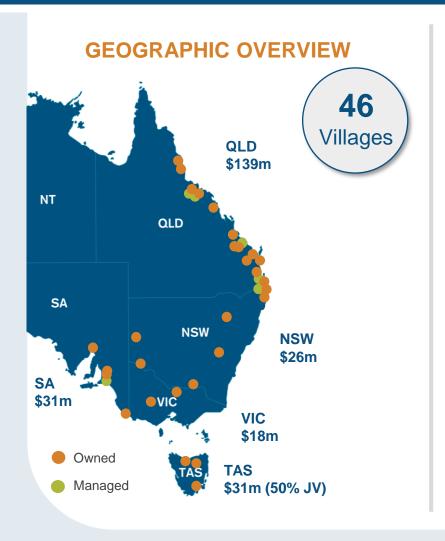
32.1% Gearing 40.8% FY22 \$25.3m Valuation uplift \$2.8m FY22

Includes independent valuations on 29 properties in FY23

<sup>1.</sup> Refer Definitions on page 31. Underlying EBITDA growth of 19% achieved despite no current year contribution from Lismore which was impacted by a severe flood event in 2H22. Prior year contribution was \$0.60m. Underlying EBITDA margin of 34.6% (FY22: 35.3%). Loss of Lismore village impacted FY23 margin by -0.7%.

## Portfolio Summary

Eureka operates a pure play, specialist strategy of providing affordable seniors rental accommodation



### **PORTFOLIO SNAPSHOT at 30 June 2023**

2,551
Units under management

2,507 units FY22

99% Occupancy

>95%

Rent underpinned by government pension and rent assistance

\$229m Investment property value<sup>1</sup>

\$172m FY22

**8.3%** WACR<sup>2</sup> 9.4% FY22

1. Includes 50% share of investment properties held in JV. Refer slide 7

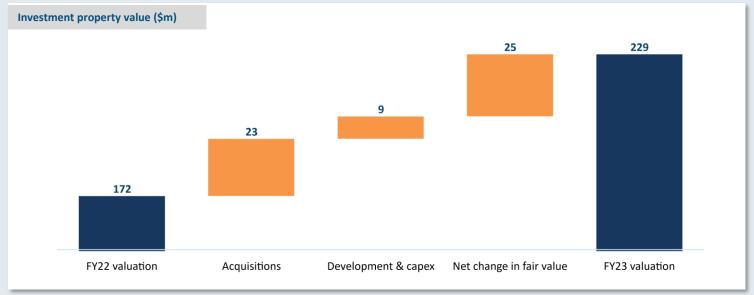
## Investment properties

Portfolio enhanced by active management

### Commentary

- A 'whole of portfolio' valuation was completed in 2H23
- Net increase in investment property values of \$57m or 33%, including:
  - Valuation uplift of \$25m during the year, driven by increased village earnings and capitalisation rate compression (WACR<sup>1</sup> of 8.3%, down from 9.4%)
  - Acquisitions, development and capital improvements also supplemented portfolio growth over the year, contributing \$32m<sup>1</sup>
- Further portfolio growth is forecast as Eureka continues to move towards "institutional scale"

### Strong portfolio growth<sup>3</sup> driven by acquisitions and valuations



### Investment property summary

	FY22 Portfolio (\$m)	FY23 Portfolio (\$m)	Increase in Portfolio (\$m)	Increase in Portfolio (%)
QLD	104.6	138.5	33.9	32
NSW	16.2	25.5	9.3	57
VIC	10.9	17.6	6.7	61
SA	28.0	31.4	3.4	12
TAS	11.9	15.5	3.6	30
Total value	171.6	228.5	56.9	33

Refer Definitions on page 31

Includes capitalised transaction costs

3. Includes 50% share of investment properties held in JV

## Acquisitions and developments

Committed to growing the portfolio via acquisition and development opportunities

### **Completed acquisitions**



**\$7.3m acquisition**<sup>1</sup>
55 units plus management rights settled September 2022



**\$6.7m acquisition**50 units settled November 2022



**\$5.1m acquisition**46 units settled November 2022



\$3.7m individual unit acquisitions in managed villages
37 units settled

### **Development update**



- Brassall village acquired in July 2021 comprising 43 rental residences, 12 land lease residences and surplus development land
- Construction commenced in February 2023 for 51 new dwellings and refurbished community facilities
- Dwellings will comprise premium, free-standing 2-bedroom residences with modern amenities including kitchen, bathroom and car parking
- Stages 1 and 2 (22 units) are complete, fully leased and occupied
- Stage 3 (18 units) is fully pre-leased and due for completion in December 2023
- Stage 4 (11 units) has 5 units remaining to be leased
- On completion in January 2024, the village will comprise 106 free standing residences

1. \$6.5m acquisition excluding management rights

## Five Pillar Operating Platform

Focus on residents, team, assets within a robust risk management framework



## Occupancy and Revenue Initiatives

Organic revenue growth delivered through implementation of national rental pricing strategy

Exceptional resident experience & sense of community drives increased tenure & demand

Resident satisfaction of greater than 80% drives increased tenure & demand

Enhanced resident well-being through improved food services and community activity programs drives increased tenure & stable occupancy



# Team Culture and Engagement

Focus on high level employee engagement

Implement fit for purpose systems & processes with automation, compliance & efficiency in mind

Build organisational effectiveness (now) & readiness/agility (future) through capability & capacity to respond to current & future demands

Create a culture of values-based leadership

Investing in targeted learning and development programs to facilitate elevated business performance



# Safety, Risk and Compliance

Regular review of risk management systems

Strengthen & mature our safety learning culture

Streamline & mature risk management processes

Focus on safety to ensure well-being for the Eureka community

Efficient management of risks, hazards & incidents



## Technology and Brand

Implement technology transformation program in FY24

Commitment to fostering digital innovation across the business

Change management strategy to facilitate adoption of new processes & technologies

Brand revitalisation & repositioning complete

Drive value creation through brand consolidation



## Environment, Social & Governance

Further development of the ESG action plan by establishing a suite of sustainability policies

Reduce our carbon footprint through initiatives to improve waste management & energy efficiency

Balance Duty of Care responsibilities towards ageing residents while facilitating independent living

# Sustainability

Resident first philosophy enhances resident experience, creating sustainable value for shareholders

	Initiatives	Achievements	Targets / Focus
Environment Developing an environmental program to reduce the impact of operations on the environment	Solar power  Commitment to energy conservation through a continuation of village solar programs  Energy efficiency  NABERS energy standards to be implemented into the portfolio through the ESG framework	<ul> <li>Implemented solar power at 13 villages</li> <li>FNQ building resilience and storm readiness</li> </ul>	<ul> <li>Solar power to be implemented in a further 7 villages in FY24, reducing village and resident power bills</li> <li>Remove single use plastic containers by FY24</li> <li>Brassall development incorporates energy efficient design</li> </ul>
Social A nationally important provider of essential social infrastructure	Resident first  Empowering the well-being and independence of residents in a safe, secure and active village where residents can age in place  Community connections  Key part of social infrastructure, supporting the wellbeing of residents and the broader communities in which villages are located	<ul> <li>Resident first approach to ensure sense of belonging and community to extend tenure</li> <li>Resident health and wellbeing talks covering a range of topics including sleep and diet</li> <li>Technology programs for residents</li> <li>Security enhancement through installation of security gates at most villages</li> <li>Community room upgrades across 20 villages</li> </ul>	<ul> <li>Enhance customer value proposition to improve resident welfare, safety and physical and menta wellbeing</li> <li>Improve employee value proposition to engage staff, retain talent and ensure staff welfare</li> </ul>
Governance Established framework to proactively consider and action ESG initiatives	Board governance  Experienced leadership and management team with expertise in property, financial management, governance and health  Ethical practices  Integrated ESG plan established with advice from an independent social impact consultant	<ul> <li>Established a 4-year ESG framework and action plan</li> <li>Risk management framework of policies, legislative and regulatory compliance and reporting</li> <li>Executive salary structure to drive performance incorporating 'at risk' component</li> </ul>	<ul> <li>Implement preferred technology systems across all business units</li> <li>Cyber security upgrade</li> <li>Climate change – resilience planning</li> </ul>

## Capital management

Initiatives to maximise asset performance and fund growth

### From early 2018 to 30 June 2023:



#### **DYNAMIC PROGRAM**

Asset recycling

Improving cash flows and margin contribution from assets

Stable and supportive bank relationship

Dividend payments commenced

Equity raise



### **GROWTH IN UNIT NUMBERS**

~ 550 units have been disposed of and more than 1,200 units acquired



### IMPROVED EARNINGS AND CASH FLOW

Operating cash flow almost doubled

Underlying EBITDA has increased by 80%

Improving EPS trend



### **BALANCE SHEET STRENGTH**

Investment properties have increased from \$100 million to \$229 million

Gearing<sup>1</sup> reduced to 32.1%

NTA per share has grown by 51% from 29.8 cents to 45.0 cents

Interest cover ratio improved from 2.5x to 3.5x

## Capital management

Planning to provide optionality for future funding requirements

### **Commentary**

- Balance sheet gearing<sup>1</sup> reduced from 40.8% at 30 June 2022 to 32.1% following completion of \$28.2 million Entitlement Offer in November 2022 and investment property revaluations
  - Current gearing at lower end of target range of 30% to 40%
  - Eureka maintains covenant headroom on interest cover ratio and gearing
- Funding of Brassall development is supported by existing undrawn and available debt facilities
- \$50m of interest rate hedging across three tranches covering 72% of drawn debt
- Strategic and operational plans include identified acquisition and development opportunities together with funding options

Key debt metrics		FY23	FY22
Facility limit	[\$m]	83.0	77.5
Drawn amount	[\$m]	69.7	70.0
Proportion hedged	[%]	72	-
Weighted average hedge maturity	[years]	2.15	-
Cost of debt p.a.	[%]	5.96	2.26
Gearing	[%]	32.1	40.8

32.1% Gearing<sup>1</sup>

3.5X
Interest Cover Ratio

5.96% Cost of debt

Metrics at 30 June 2023

\$69.7m

\$83m Facility limit

# Eureka's build-to-rent portfolio is well positioned

A leading provider of affordable accommodation within the seniors living spectrum

Residential home	Government social housing	Land lease communities	Seniors rental 'Eureka'	Retirement village	Aged care
		Community-based independent living		Care services available	Advanced care services
Operator characteristics	Provision of services	Facilities development and asset ownership	Facilities development and asset ownership	Facilities development and asset ownership	Combination of facilities and service provision
Typical age	All	50+	70+	70+	80+
Rental assistance available?	<b>✓</b>	<b>✓</b>	✓	×	<b>~</b>
Key features	<ul> <li>Mixed resident demographic</li> <li>Very limited availability with long waiting lists</li> <li>No social / community engagement</li> <li>Does not include meal service</li> </ul>	<ul> <li>Site agreement model whereby residents own a manufactured home on rented land</li> <li>Community style living and facilities</li> <li>Few additional services</li> <li>Upfront capital commitment and ongoing rent</li> </ul>	<ul> <li>Community style living and facilities, including meal service in a majority of villages</li> <li>All inclusive headline rental price</li> <li>Simple Residential Tenancy Agreement</li> <li>No entry or exit fees</li> <li>Significant level of autonomy and independence</li> <li>Safe and secure villages</li> </ul>	<ul> <li>Increased services, including care</li> <li>Residents generally pay an entry contribution equivalent to unit purchase price</li> <li>Significant ongoing fees</li> <li>Deferred management fee model in some instances</li> </ul>	<ul> <li>Little independence, significant levels of care</li> <li>Homes staffed with nurses and other healthcare professionals</li> <li>Typically charge daily care fees and upfront refundable accommodation bond</li> </ul>
Caters for	<ul> <li>Means tested</li> <li>Only available to lowest socio-economic demographic</li> </ul>	Those seeking to release capital by selling their residential home	<ul> <li>Retirees receiving government pension</li> <li>Seniors ageing in place independently</li> </ul>	<ul> <li>Elderly retirees who have typically sold their main residence and can afford lifestyle arrangements</li> <li>Residents are typically independent</li> </ul>	Elderly people who require significant levels of care

## FY24 Outlook and strategic priorities

Building long term value via a disciplined growth plan, backed by a resident first philosophy

**Capital management** 

- Capital management planning to support performance and growth
- Strategic objective is to achieve institutional scale to generate acceptable returns for all shareholders

**Portfolio management** 

- · Continue to pursue earnings-accretive acquisitions in existing and new markets
- Deliver on development opportunities identified and expand the development pipeline in highdemand regional markets

**Technology** 

• Implement preferred technology systems across all business units to deliver economies of scale, cost containment and enable significant business growth

**Sustainability** 

 Advance the environmental pillar of Eureka's ESG plan to complement the strong social and governance platform



### FY24 outlook

#### **Business conditions**

- Volatile capital markets impacting availability of public market capital particularly for small and mid-sized companies
- Head winds for global economy, including political conflicts and high inflation rates in key markets, are impacting Australian economic conditions
- High demand for Eureka's product, stable earnings and cost containment result in stable cashflows because earnings are underpinned by government pensions and rent assistance
- Interest rate environment remains challenging. Risk mitigated by interest rate hedges.
- Share price trading close to NTA against property sector industry trends of substantial discounts

### **FY24 Expectations**

- Continued growth in underlying EBITDA¹ from the existing asset base
- Like for like revenue and underlying EBITDA<sup>1</sup> growth, underpinned by CPI-linked pension increases
- · Contributions from prior year acquisitions and Brassall development
- Maintain occupancy at 98% or above
- Strong maintainable earnings expected to result in further uplifts in investment property valuations
- Non-recurring expenses for implementation of technology platform

### **Definitions**

#### **EBITDA**

### (Earnings before interest, tax, depreciation and amortisation)

An unaudited non-IFRS measure. The Directors believe it is a readily calculated measure that has broad acceptance and is referred to by regular users of published financial statements as a proxy for overall operating performance. EBITDA is calculated from amounts disclosed in the financial statements

#### Eureka

Eureka Group Holdings Limited (ACN 097 241 159)

### Gearing

Calculated as net debt (being interest-bearing drawn debt net of cash) divided by net debt plus equity

### **NABERS**

National Australian Built Environment Rating System

#### Net debt

Interest-bearing drawn debt net of cash

### **Underlying EBITDA**

An unaudited non-IFRS measure that represents the operating performance of the Group and excludes valuation adjustments, asset disposals and certain non-core or non-recurring transactions

### **Underlying EPS**

Net profit before tax excluding valuation adjustments and certain non-core or non-recurring transactions divided by the number of shares outstanding

### **WACR**

Weighted Average Capitalisation Rate

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#### **ENQUIRIES**

Murray Boyte, Executive Chair Laura Fanning, Chief Financial Officer



