



Eureka Group Holdings Ltd

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ASX Announcement

31 October 2019

2019 Annual General Meeting – Chairman’s Address

Eureka Group Holdings Limited (ASX: EGH) releases the attached Chairman’s address and accompanying presentation which will be presented at this morning’s Annual General Meeting, commencing at 11am Brisbane time.

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



Chairman's Address

Murray Boyte – Executive Chairman



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Chairman's Address

2019 Annual General Meeting of Eureka Group Holdings Limited (ACN 097 241 159)

31 October 2019

Ladies and Gentlemen

Welcome to Eureka Group Holdings Limited's (Eureka) Annual General Meeting (AGM) for the year ended 30 June 2019.

Financial

Eureka achieved a significantly improved financial result over that for the previous year, reporting a net profit before (and after tax) of \$6.79 million. This compares with a prior year net loss of \$0.28 million. Net profit prior to asset revaluations was \$4.84 million (2018: \$4.05 million).

Earnings before interest, tax and depreciation (EBITDA) and before asset revaluations of \$7.83 million was up 11% on the prior year of \$7.05 million.

Eureka paid a 1 cent final dividend on 17 October 2019. Payment of this dividend demonstrates the progress the company has made over the reporting period and confidence in future business operations and growth.

The 2019 financial year has been a transitional one for Eureka. The key focus has been to improve operational performance while maintaining a diligent approach to the sale of non-core assets. Proceeds from non-core assets sold were \$5.9 million. Further sales have occurred since balance date.

The sales program for strata titled units at the Terranora property commenced in June 2019. To date, 10 settlements have occurred generating sales of \$2.86 million. A further 5 contracts have been exchanged totalling \$1.45 million. We have recently appointed an additional sales agent to accelerate and raise the sales and marketing profile. Contracts settled, exchanged and Expressions of Interest that are considered likely to go to contract total 17 of the 60 units for sale. Our plan remains to complete the sale of the 60 strata titled units by 30 June 2020. A feasibility is being undertaken on the 4.8 hectare parcel of vacant land which is separately titled, to determine its suitability for a seniors' rental living facility.

Operations

The appointment of Tracey Campion as Chief Financial Officer in January 2019 and Cameron Taylor as Chief Operating Officer in March 2019 has strengthened the management team and enabled renewed leadership focus on business processes and operational effectiveness at the support office, and importantly throughout the village network. In the latter part of the 2019 financial year, management developed and commenced the implementation of a two-year business plan based on 5 operating pillars. As shown in the (attached) slide, these pillars form the basis of a reset of the operating platform:



- Occupancy, Revenue and Cost Initiatives
- Team Culture and Engagement
- Safety, Risk and Compliance
- Information Systems and Technology
- Applications

This platform will form the basis for the growth and scaling of the business. The resetting of this platform is in its early stages of implementation, however, we are already seeing benefits flowing through from the initiatives put in place under the 5 operating pillars.

Outlook

We are positive about the outlook for the 2020 financial year.

Operating results for the quarter ended 30 September 2019 have been encouraging with EBITDA and net profit after tax ahead of budget and the 2019 financial year. We are already seeing benefits commencing to flow through from the initiatives put in place under the 5 pillar plan. By way of example, overall occupancy has increased to 93% at September 30 from 91% at June 30. We expect to maintain this trading momentum throughout the year.

Our forecast EBITDA for the 2020 financial year is circa \$8.0 million (prior to asset revaluations and sales at Terranora). While this may be considered subdued and only a marginal improvement on the 2019 financial year result, it does reflect an improved quality of earnings in the core asset base and further investment in the second half, primarily in the areas of marketing, including customer relationship management, and information technology.

A marketing manager has been appointed and a strategic marketing exercise has been undertaken to broaden our marketing approach, including targeted marketing through social media and digital marketing channels. We believe this initiative will lead to an upturn in occupancy over time.

The second half of the 2020 financial year will include the commencement of our investment in the information technology platform, the benefits of which will be realised in the 2021 financial year. An upgrade of the information technology platform resulting in the Group's customer relationship management, financial, property and operating systems interconnecting seamlessly, is a fundamental prerequisite to the scaling of the business by acquisition.

Implementation of Eureka's acquisition strategy is at an early stage and the Company expects to commence an acquisition program in the second half. In addition, a feasibility is being finalised for a redevelopment opportunity at the Wynnum village, which could add a further 25 units to that village in the 2021 financial year.

The continued sell down of non-core assets, particularly the Terranora development and the Bowen property, will return cash from low earning assets for repayment of debt and reinvestment in the core business.

Eureka provides affordable rental accommodation for independent seniors. The opportunity exists for Eureka to scale its platform of providing secure, safe and friendly residential accommodation in the social infrastructure segment of retirement living.



I refer to the (attached) slide which sets out statistics that highlight the need for accommodation in this segment of the market.

Board and Management

During the year there were a number of changes to Eureka's Board and management. I have referred to our new management team earlier in this address. In addition, Mr Nirmal Hansra retired from the board after the 2018 Annual General Meeting and Mr Russell Banham was appointed a non-executive director and chair of the Audit & Risk Committee. As previously mentioned, Mr Lachlan McIntosh has resigned from Board effective 31 December 2019.

You have in place a committed and experienced Board, a competent senior management team and an enthusiastic and dedicated group of employees. Together, we are committed to accelerating the asset recycling program, the development of a capital management strategy and the profitable expansion of the Eureka business.

To our shareholders, the Board and management thank you for your continued support in what has been a challenging period for Eureka. It is very much appreciated.

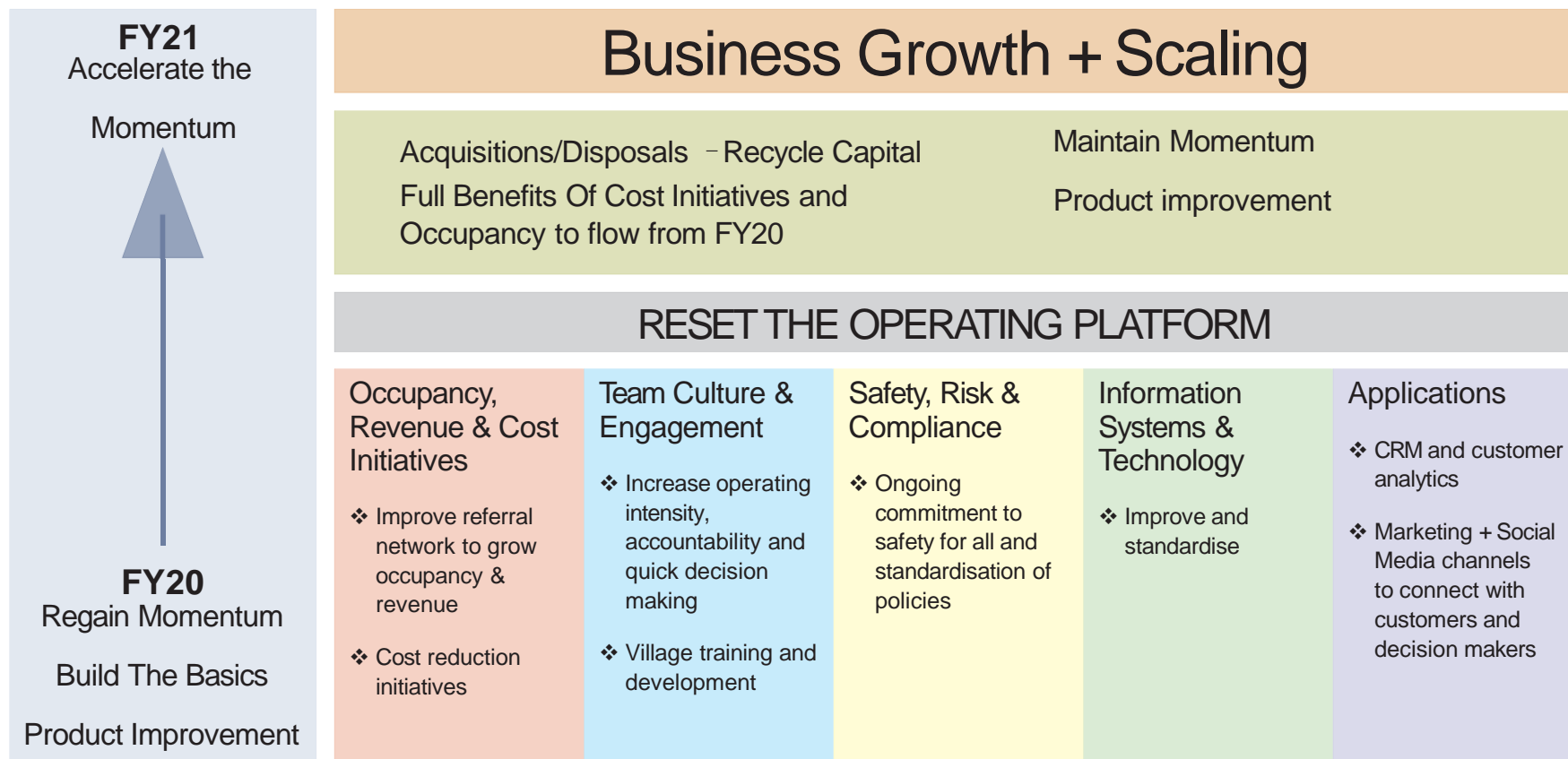
Thank you.

FY2019 Highlights

- NPAT of \$6.79M, up from a prior year loss of \$0.28M
- EBITDA from core operations of \$7.83M (prior to asset revaluations). An 11% improvement on FY18
- Operating cashflow \$4.75M. Up 13% on FY18
- Dividend 1c unfranked – commencement of a dividend to shareholders demonstrates the progress the company has made this year and confidence in the future
- Strong occupancy levels of 91%
- Net Debt of \$46.2M – 14% reduction on FY18
- NTA 33.1c up 11% on FY18 (29.8c)
- Net debt to total tangible assets of 36% (FY18 42%)



Eureka Strategy



FY2020 Initiatives and Outlook

- Recommence acquiring and scaling the business (acquisition and development of existing assets)
- Continuous product improvement to maintain high occupancy and grow rental income
- Fully integrate finance and operations systems to capture efficiencies and facilitate cost effective scalability of the business
- Development of a marketing strategy including through digital channels
- Capital management initiatives and asset optimisation
- forecast EBITDA for the 2020 financial year is circa \$8.0 million (prior to asset revaluations and sales at Terranora)



Key Industry Statistics

Aging population

- In 1977 1.3M Australians were aged +65 years (9% of the population)
- In 2017 3.8M Australians were aged +65 years (15% of the population)
- In 2057 8.8M Australians forecast +65 years (22% of the population)

(source: Australian Institute of Health and Welfare 10 September 2018)

Superannuation

Superannuation balance at retirement (age 60-64) in 2015-2016,

- For men superannuation balance \$270,710 (79% with superannuation)
- For women superannuation balance \$157,050 (60% with superannuation)
- A balance of \$545K is regarded as a comfortable balance (for single person)

(source: ASFA Statistics August 2019)

Retirement Funding (aged+45 years)

- Fully self funded - 21%
- Partially self funded - 27%
- Government pension only - 52%

(source: ASFA Statistics August 2019)

Home Ownership

- 660,000 people on the aged pension do not own a home

(source: Department of Social Services (2018) DSS Payment Demographics Dataset)

