

Eureka Group Holdings Limited

Investor Presentation

Half Year ended 31 December 2017

February 2018



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1.0 Highlights

- Continued improvement of occupancy levels lifting from 83% in February 2017 to 89.6% in June 2017 and 92% in December 2017
- EBITDA¹ of \$3.4m (prior to fair value adjustments) for the half year which forms part of the market guidance for the full year of \$7.5m to \$8.5m including a stronger second half performance
- Continued growth of portfolios with 3 additional villages acquired.
- Progress achieved in recycling non core assets including sale of the Supported Residential Facility (SRF) Amber Lodge for \$2.2m and sold Victoria St, Mackay for \$1.2m with both settlements due in March 2018.



¹ EBITDA is a non IFRS measure and it not included in the financial report of the Group. It is an unaudited value.

1.0 Highlights (cont.)

- **Couran Cove** - Amended the existing agreement and entered in to an additional agreement in relation to loans of \$2.9M to Couran Cove resort. This strengthens Eureka's position and accelerates the anticipated repayment in full prior to 30 June 2018. The loans include recovery of fixed assets at Couran Cove previously acquired by Eureka.
- **Valuation** - Core retirement villages in aggregate have resulted in positive fair value adjustments. This includes 3 villages being independently valued above previous book value.
- **SRF villages** - Further assessment of SRF villages in South Australia has necessitated write down of these investment properties.



1.0 Highlights (cont.)

- **Capitalisation rate** - Recent external valuations indicate capitalisation rates are improving.
- **Terranora** - The process of obtaining compliance with development approval conditions at Terranora resort continues. Refer subsequent details.
- **Outlook** - Fundamentals for the sector in which Eureka operates remain very strong and continue to improve. Opportunity for continued growth in portfolio.



2.0 Eureka Business Overview

STRATEGY

- ✓ **Primary focus to provide low cost rental accommodation and limited associated care with a focus on independent retirees who are completely or primarily supported by the Australian Government pension and location allowances**
- ✓ **Target market represents a significant portion of the growing retirement sector**
- ✓ **Sources majority of revenue indirectly from the Federal Government**

OPERATIONS

- ✓ **27 owned villages and 9 managed villages representing approx 2,000 units**
- ✓ **Operating in 4 States of QLD, NSW, VIC and SA with most villages located in regional areas**
- ✓ **Low cost operating model**

BOARD AND EXECUTIVE

- ✓ **Expanded Board including new Chair (Murray Boyte) and new Chair of Audit and Risk Committee (Sue Renkin)**

FINANCIAL

- ✓ **Recycling of capital underway including sales of Amber Lodge and Victoria St, Mackay**

3.0 Key Financials

The table below summarises the results for the half year ended 31 December 2017

(\$'000)	31-Dec-17	31-Dec-16
Total revenue (excluding revaluation gain of Investment property)	11,322	12,356
Operating expenses	<u>7,847</u>	<u>7,988</u>
EBITDA (prior to revaluation adjustments)	3,475	4,368
Depreciation & amortisation	<u>131</u>	<u>125</u>
EBIT (prior to revaluation adjustments)	3,344	4,243
Finance costs	<u>1,311</u>	<u>1,158</u>
Profit before income tax (prior to revaluation adjustments)	2,033	3,085
Add revaluation gain/(loss) of investment property and other	<u>(2,135)</u>	<u>3,204</u>
Profit/(loss) before tax	(102)	6,289
Income Tax expense	<u>-</u>	<u>-</u>
Net profit/(loss) after income tax	<u>(102)</u>	<u>6,289</u>

- Prior year revenue included consulting fees to Couran Cove and other items not included this year. Core retirement village revenue increased 7.7%
- Contribution from core retirement villages improved during the period. Includes margin expansion for rental villages.
- Revaluation losses in current period reflect impairment of SRF villages.

3.0 Key Financials (cont.)

The table below summarises the balance sheet at 31 December 2017

(\$'000)	31-Dec-17	30-Jun-17
Assets		
Cash and cash equivalents	4,411	4,395
Trade and other receivables	3,079	2,632
Inventories	11,191	7,649
Other assets	5,122	5,200
Non-current assets held for sale	2,146	-
Investment property	101,828	100,666
Property, Plant and equipment	672	1,665
Intangible assets	6,004	6,327
Total assets	134,453	128,534
Liabilities		
Trade and other payables	2,773	2,660
Other financial liabilities	56,525	50,573
Provisions	390	434
Total Liabilities	59,688	53,667
Net Assets	74,765	74,867
Equity		
Share capital	94,255	94,255
Accumulated losses	(19,490)	(19,388)
	74,765	74,867

- Inventory includes reclassification of Couran Cove cabins from Investment property.
- Non current asset held for resale represents Amber Lodge which is under unconditional contract due to settle in March.
- Investment property reflects acquisitions made offset by reclassification of Couran Cove cabins and Amber Lodge.
- Increase in debt consistent with acquisitions.

3.0 Key Financials (cont.)

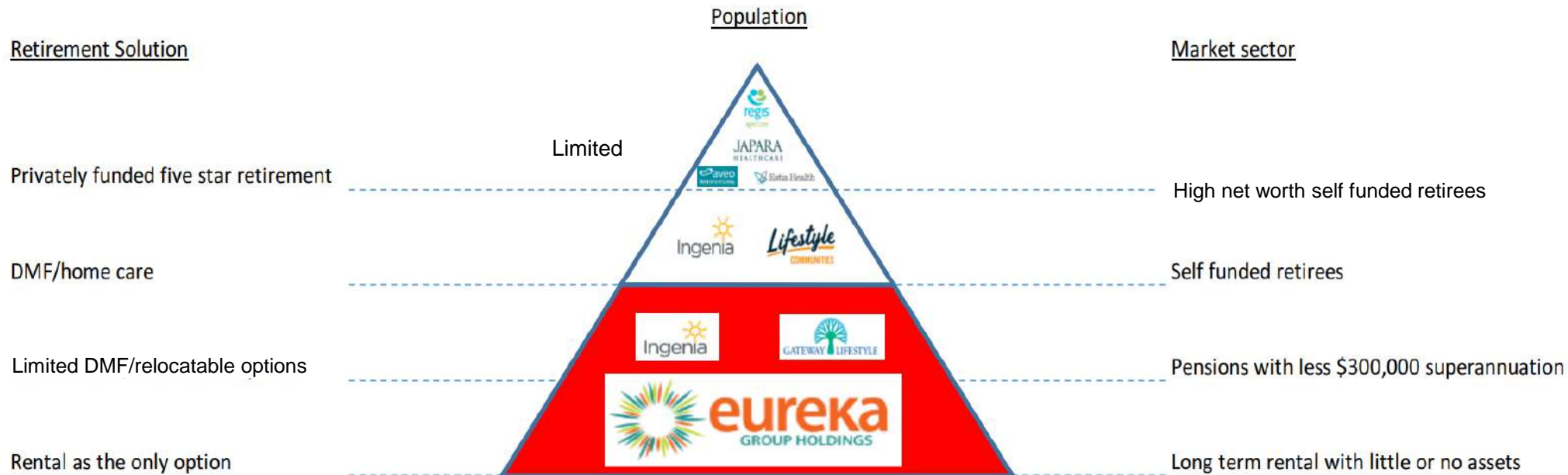
The table below summarises the Statement of Cash Flows for the half year ended 31 December 2017

	31-Dec-17	31-Dec-16
Cash Flows from Operating Activities		
Receipts from Customers	11,536	10,448
Payments to suppliers and employees	(8,491)	(8,344)
Net interest paid	(1,222)	(1,012)
Net cash provided by Operating Activities	<u>1,823</u>	<u>1,092</u>
Cash Flows from Investing Activities		
Payments for additions to investment properties	(7,445)	(10,112)
Other payments for investing Activity	(58)	(947)
Net Cash used in Investing Activities	<u>(7,503)</u>	<u>(11,059)</u>
Cash Flows from Financing Activities		
Net proceeds of borrowings	5,696	8,732
Net proceeds from Share Issue	-	3,712
Net cash provided by Financing Activities	<u>5,696</u>	<u>12,444</u>
Net increase /(decrease) in cash and cash equivalents	16	2,477
Cash and cash equivalents at the beginning of the financial year	<u>4,395</u>	<u>6,841</u>
Cash and cash equivalents at the end of the financial year	<u><u>4,411</u></u>	<u><u>9,318</u></u>

- Positive operating cashflow largely consistent with profit result excluding fair value adjustments.
- Operating cashflow affected by investment at Terranora during the period.
- Investing cashflow reflects growth in portfolio of villages.
- Funding sourced from increased debt.

4.0 Market sector overview

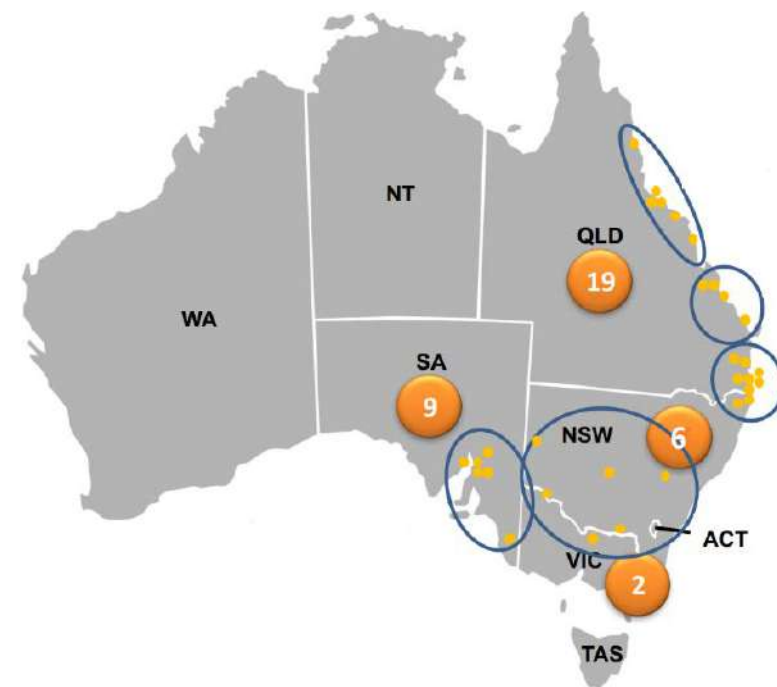
- Expanding gap in the market as other service providers move their product up in the market price and away from the rental option.
- Recent trends of villages and also low cost alternatives including caravan parks move to the DMF and MHE models, significantly reducing the amount of affordable housing available in the market. ABS figures suggest a significant percentage of our population will never own their own property and will always rent. As this market sector approach retirement age they will have little or no option but to rent.
- The Eureka rental model avoids complex contracts involving deferred management fees or other entry/ exit fees.



5.0 Operations

Eureka has created a strong operating base to enable economies of scale and scope to leverage further

- 36 villages under management (including owned villages) – approx. 2,000 units
- 27 of those villages with freehold land and building ownership
- Regional cluster creating cost reduction opportunities
- Continued portfolio growth through acquisition of more villages utilising the proceeds from non core asset sales



6.0 Capital Recycling

The Key assets being actively pursued or being considered for capital recycling include:

- Amber Lodge SRF (sale contracted)
- Victoria St, Mackay (sale contracted)
- Couran Cove (refer detailed slide)
- Terranora (refer detailed slide)
- SRF villages (refer detailed slide). Strategic evaluation underway
- Other non core assets

6.0 Capital Recycling (cont.)

Terranora Resort

Assets	60 Apartments		Obtain strata title and sale of apartments
	4.8ha development land		Obtain separate title and sale
	On site manager office and apartment		Either retain and manage or sale
	Total book value	\$11m	

- Existing 60 units currently earning rental income pending Council approval for individual sale.
- Approval with conditions for Terranora has now been received from Tweed Shire Council.
- The process of complying with the conditions is proceeding.
- Surplus land of approx. 4.8ha is suitable for on sale once separate title secured.
- Due to uncertainty of timing of obtaining separate titles no profit from sale of apartments included in FY18 forecast.
- Pool and other surrounding lands to become common property of Body Corporate.

6.0 Capital Recycling (cont.)

Couran Cove

Assets	Working Capital loan receivable – Couran Cove Entities	\$2.0m	Collect loan
	Fixed asset loan receivable – Couran Cove Entities	\$0.9m	Collect loan
	Land option – Couran Cove Entities (offset against loan receivable)	\$3.0m	Partner with builder to develop and sale or recover as a loan receivable from Couran Cove in August 2020
	29 Cabins – Owned	\$2.8m	Sale of cabins

- Loan arrangements including repayment schedule agreed and documented. This includes recovery of fixed assets located at resort. Recovery of \$2.4m cash and \$0.5m barter card balances anticipated prior to 30 June 2018.
- Currently own 29 Cabins for sale. Slow progress of sale to date.
- \$3m option over 60 lots of vacant land (titles to be issued) suitable for building affordable cabins or for sale. If unsold at August 2020 then remaining balance is recoverable from Couran Cove entities.
- If management rights of the resort are transacted prior to August 2020, Eureka to receive revenue.
- Considerable work completed by the Owner of the Couran Cove Resort to improve the presentation and market for Couran Cove real estate.

6.0 Capital Recycling (cont.)

Supported Care Villages SRFs

Assets	Village	Book value at 31 Dec 17	Strategy	Fair Value Adjustment
	Alexam – Adelaide	\$3.6m	Trading profitably – transition to NDIS	(\$1.0m)
	Amber Lodge – Adelaide	\$2.2m	Sold to settle in March	(\$0.6m)
	Lambert – Mt Gambier	\$1.5m	Strategy review underway	(\$0.9m)

- These villages provide a higher level of care and hence greater staffing levels than typical Eureka Villages.
- Consistent with previous strategy, Amber Lodge sold with settlement in March 2018.
- The village in Mt Gambier, Lambert Village, is facing difficult trading conditions so a strategy review is underway.
- The village in Adelaide, Alexam Village, is trading profitably but at levels lower than originally expected. The operations are transitioning to the NDIS framework which incorporates opportunity but also some uncertainty.
- Reflecting these forecasts, fair value adjustments has been recorded in December 2017.

7.0 Outlook

- Core retirement villages continue to perform well with focus on further occupancy improvement.
- Demographic trends of ageing population and housing affordability strongly supports Eureka target market.
- Capital recycling has commenced including the sale of 2 assets with settlement in March 2018.
- Further acquisitions under active investigation to deploy recycled capital into core retirement villages. Eureka continue to actively pursue and progress discussions on potential village acquisitions that complement its core business.
- Reconfirmation of full year EBITDA (excluding fair value adjustments) of \$7.5m to \$8.5m. The quantum and timing of profits from Terranora are uncertain as they are reliant on compliance with Council conditions so no guidance is provided for the year to 30 June 2018.

Appendix A

Substantial Shareholders

The substantial shareholders as notified to the ASX include:

- Cooper Investors 10.7%
- Tribeca Investment Partners 9.3%
- Robin Levison (Non Executive Director) 5.6%
- Lachlan McIntosh (Non Executive Director) 5.2%



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