Transcript of Ryman Healthcare Half Year Results, November 23, 2017

Start of Transcript

David Kerr: Good morning everyone and welcome to the those of you in the room and to those of you on the webinar to Ryman Healthcare's half year results presentation for the six months to 30 September 2017. For those of you who don't know me I'm David Kerr. I'm the Chairman of Ryman Healthcare. To my right we have Gordon MacLeod, our Chief Executive and then beyond him, David Bennett, our Chief Financial Officer.

So this morning's format will include a bit of an overview from me, followed by presentations firstly from Gordy and then from David. Gordy's going to give you a snapshot of the operational progress during the half and some views on what's ahead, and his experiences in the first five months as Chief Executive, and then David will give you some greater detail on the financial results.

At the end of the presentation we want to open the session up for questions obviously form the floor, and following that we'll take questions from any callers who are on the conference line. We'll bring a microphone to those of you with a question in the room so that everyone can hear, but also so people on the webinar can hear you properly as well.

For those of you who are listing on phone conference or webinar the operator will advise you when you can ask a question. We would anticipate wrapping up 9:40, something like that.

So look as a Board we're very satisfied with the first half result. The numbers pretty much speak for themselves and David will talk through them in greater detail shortly, but it's been another pleasing half year and we've got some great villages on the way and have made good progress on a number of fronts.

The headline numbers are that the underlying profit increased by 11.4% to $85.2 million. The IFRS reported profit, which includes the revaluations, is up by 8.4% to $202.6 million. The interim dividend has been lifted to $0.095 a share and the assets have increased to currently sit at $5.3 billion.

Possibly most importantly, we're now in a position where we've got 14 new villages in the pipeline which includes a great new site for our seventh village in Victoria.

As a Board we've always taken the view that if we, the team at Ryman, can get our care and resident experience right then the financial results will take care of themselves. This result today, which builds on 15 years of continuous profit growth, I think demonstrates that. So I'd just like to take a moment to talk about care and why I've been so heartened with the progress that we've made, and what is really at the very core of what we do as a business.

Over the years a lot of people have mistaken us as a purely property development Company and this is not the case. When anyone asks me what Ryman Healthcare does I always say we're a care Company. It's simple; we care for older people. We take that responsibility very seriously and we believe it's a privilege to look after older citizens.

We've been a care Company since we first started and nothing has changed, except the size of the Company and the markets that we operate in. We know as a Board that if the team can get that care side of the business right everything else will follow. It's all about the residents. The care we provide must be, in the words of Kevin Hickman, our co-founder, good enough for mum.

That was the genesis of the Company and it's still the primary driver. Many of our residents are particularly vulnerable and it's a statement of the obvious possibly, but in that situation humans need another human. Someone to listen to them, to be with them, to feel connected to and basically to care for them.

I think that the familiar face, a caring touch, a smile, all combine into an encounter which is what makes a person feel cared for. Care is what we do and you could say that our strong focus on care is a point of difference in what sets us apart from many of our competitors here and in Australia.

Fifty-five per cent of our village offering is care-based. More than 5000 residents receive care tailored to their needs in either serviced apartments or our rest home, hospital or dementia care units. The security of knowing that there is great care on hand if needed is one of the compelling reasons why the other 45% of our residents enjoy living in our village so much.

We provide them and their families with the peace of mind of knowing that we're there to help if they need us. This focus on care, as you can see from the slide, is what makes us the biggest player in this area in the industry, with a much stronger skew towards care than our listed retirement village rivals.

Our residents are predominantly in their mid-80s and older so you can see why certainty of provision of care is so critical. I've served on our Clinical Governance Committee since its inception, along with two other Director colleagues, and Professor Tim Wilkinson, a geriatrician, and professor at the Otago Medical School, and it's our role to see that the team make sure all our clinical indicators are heading in the right direction. I can assure you that they are.

MyRyman, which Gordy will talk about in a moment, has already made a big impact, and I see its potential for improving the care experience for residents and staff is enormous. Apart from improving our ability to see that the right care is delivered at the right time to the right person, we're also releasing our staff from being scribes in an office to being able to spend more quality time caring along the lines of what I've just outlined.

1CHART, our medication administration system which we introduced in 2016, has had an immediate impact on the accuracy and efficiency in medication delivery. On top of those innovations we've invested further in our staff training and improved internal audit systems, which mean our care staff are constantly able to learn from one another and to focus on improving what they do.

All of this has had a really practical effect upon our residents. We know that the care is continually improving. What's really heartening is that we can measure these results because Ryman Healthcare now has 15 villages with four year audit certification from the Ministry of Health.

Now four year audit certification is the gold standard of any external audit. It shows that our systems and practice are consistently high enough for the external auditors to give such lengthy certification. You can see from the slide that we're actually leaders in this certification. So not just a blip. This is the result of years of hard work by our staff and a focus on continuous improvement, and our focus will continue to be on improving.

Earlier this week we had a Board meeting, and when I was reflecting on the content of that Board meeting, it was predominantly focused on where the Company wants to be in the long term, and on our organisational health. Yes, like all companies, we have to look in the rear vision mirror from time to time, but our long-term orientation is much more important. I think it's fair to say that as a Board, we were seeing lots of danger in short termism, if there is such a word.

Too much focus on what we need to do in the first half, or the second half, or what the second half is going to deliver, runs the risk of us not delivering a well-resourced, resilient business with a long term growth path. We feel strongly that this is a long term growth Company.

There's plenty of research to show that long term growth companies can be identified by having steadily increased revenues, low volatility in those revenues, and they tend to have a focus on value creation fundamentals, rather than the next announcement or the next briefing. Long term growth companies also will tend to have steadily increasing total shareholder return and increasing market cap, and I suggest these are all features you can see in this Company. They also tend to invest back in the Company and are indeed to a much greater degree irrespective of the year to year variation.

So our continued investment in our staff, our leadership, our program of refurbishment of the villages and investment in new technologies, like myRyman and 1CHART, are actually ways of us demonstrating that commitment.

Every village that we add is another financial engine for the Company, which enables us to fulfil the purpose of caring for older people; also to continue to invest in improving the resident and staff experience and generating increasing shareholder returns.

We've got a record of delivering to shareholders exceptional financial results over the medium and long term and we're very proud of that. We have exceptional staff and senior management, many of whom have been with the Company over a long period of time, and I know that they're also totally committed to the long term success of the Company.

So in closing I would just say that the Board and leadership of the Company see ourselves as having a long term view for this Company which is exemplified by a deep commitment to the residents and their care. It's also exemplified by a similar commitment and continued admiration for our staff and the culture that they embrace, and a continued determination to deliver great financial results to shareholders over the medium to longer term, and being able to double, as we've said often, our underlying profit every five years.

So I'd like to hand over to Gordy.

Gordon MacLeod: Thanks David. Good morning everybody. I've been in my role for five months now and I'm loving it. This is my twelfth year at Ryman so I know my way around pretty well, but I decided when I began to adopt our co-founder, Kevin Hickman's advice of management by walking the shop floor.

I've already visited lots of villages with a goal of getting around all 31 well before the end of my first year. So far I've done everything from medication rounds, but don't worry I was just watching, to helping out on the afternoon tea trolley in the care centre, sitting in on nurses' handovers between shifts, participating in resident Triple A exercise classes - but I haven't got abs yet though - and also having a good look through our kitchens and laundries and having two-course lunches with our serviced apartment residents, which is probably why I don't have abs yet.

No, I haven't been watching *Undercover Boss*. I'm probably pretty hard to disguise I think. I've met a lot of staff, heard their stories and their thoughts and enjoyed the company of residents. They're always quick to tell me what's working and what isn't.

Just one of the things that's really stood out to me has been the feedback from residents about our new menus. Residents now get three delicious choices for their main meal, all cooked fresh onsite. Our latest survey results show the highest level of happiness ever for our retirement village residents and our new menus have been a big driver of this.

We've also invested in a revamp of how we train our staff to assist resident movement in the care centre - we call it Ryman Moves - and it's been really well received by our staff as a way to make our people safer.

The other standout for me is the frequent comment I get from residents everywhere I go. Residents - they proactively come up to me and they want to tell you how great the staff are here. They want to tell you about how they're always smiling and happy and kind, and I have to tell you I'm always very, very humbled that our staff give a huge amount of themselves every day to our residents to make that experience, and I'm very grateful for that.

I've also spent a lot of time visiting our construction sites. We've put extra resource into our health and safety teams at all sites around the country. We're trialling additional measures to protect our teams when working at heights, and we've also rolled out a new health and safety system.

I have to say it's amazing actually what our construction teams achieve when you visit a site often in very trying conditions, like the fourth wettest winter on record that Auckland's just endured. Look overall there's always a lot of stuff to work on. We're never happy with where we're at, but the overwhelming sense I've got from my visits is that the investments we're making are paying dividends right now, as well as setting us up for future growth.

One of the biggest investments of all is myRyman Care. In fact, I'd be surprised if there was a bigger investment in improving the care of residents and the work experience of our care teams anywhere in the sector here or in Australasia.

We've actually finally started the revolution this year with the first village going live in July. MyRyman Care is a gamechanger. It means that our care staff have much more time to do what they signed on for - looking after residents - and of course getting rid of dreaded paperwork.

After myRyman was trialled at Diana Isaac, the first village to go operational was Anthony Wilding in Christchurch which happened in July. We picked Anthony Wilding because it is a large 150 bed care centre with rest home, hospital and dementia level care, and it's also a really well established village. It opened I think when I joined in 2006 or just before so there's plenty of engrained habits to change.

The clinical manager in charge at Anthony Wilding is Jeannie Sales and that's Jeannie on the left-hand side there in one of our lovely new uniforms. Jeannie has been nursing since 1976 - that's quite amazing; I was six at the time - and she's really proud of the 40 years that she's spent caring for people.

She took to myRyman like a duck to water. For nurses like Jeannie the beauty of myRyman is that the app contains everything caregivers and nurses need to know about their residents at a glance in their room; combining the critical clinical information with things as simple as how they prefer to have their tea.

Jeannie and the clinical teams used to spend hours writing out 20 pages of beautifully composed paper-based care plans for each residents, most of which would sit in the nurses' stations. But the reality was that the caregivers and nurses struggled to read or absorb them properly. Updating notes was tedious, shift changes were long and involved, and as you can see right throughout healthcare actually, right into the public sector, we've slowly bogged down our system of record keeping into a time-waster. Not something real time; not something people-centred.

Jeannie told us she's seen some huge changes over her 40 years of nursing, but nothing as good as myRyman.

This keeps with the imaginations of our care staff because it's user-friendly, it makes a big difference to their lives and to the lives of our residents as well. What I personally love about it is that so much technology change you see these days is done with the goal of replacing people, myRyman does the opposite in fact. It makes care far more personalised and it actually increases the human touch.

I want to acknowledge the work that Simon Challies put into myRyman. He put in countless hours. Thanks Simon, if you're watching, I'm sure you are.

Our inhouse team are doing a great job of turning the vision into a reality. We're live at eight villages already, and the rest can't wait to get their hands on it. The plan is to complete the rollout by August 2018.

We recognised a very significant milestone recently with our Group Operations Manager Barbara Reynen-Rose reaching 25 years with Ryman. That's Barb on the right hand side of that photo. Barb joins Debbie McClure as a 25 year Rymanian on the management team. So although I've done 12 years I'm still on trainer wheels really.

Barb brings the same energy, commitment and care to looking after 10,500 residents as she had back in 1992 when we only had 300 residents. What better way for her to celebrate 25 years at Ryman by leading the nationwide rollout of myRyman care.

The other great success we've had in recent times is Ryman-Delicious, that's the food revolution we talked about earlier. That actually was Barb's brainchild. She wanted people to come to Ryman for the food, and she's managed it beautifully. Along with the leadership of our food and hospitality manager, Andrew Gibson.

Barb is one of the most experienced healthcare leaders in New Zealand and I would say that's a Ryman icon. She's still leading positive change throughout our villages. By the way the staff member with Barb is Chris Beckett. Barb actually hired Chris as a caregiver

18 years ago, and she's still working for us at Ngaio Marsh in the hospital. Barb wanted to acknowledge Chris's service as well as her own.

I'm very conscious that leaders like Barb do not grow on trees, and we're going to need a lot more Ryman leaders as we double in size every five years. We are building our teams, and we're in the midst of developing what we want to be, what we want it to become is one of the best leadership development programs around, called Ryman Leaders.

Being a Ryman Leader is a very demanding job. Whether you are a unit co-ordinator on a care floor, a project manager at a construction site, or a regional manager. I want to ensure that our inhouse development of people ingrains the Ryman culture of, it's got to be good enough for Mum, that was established by Kevin Hickman. Along with his tenacity and drive to achieve what he taught to so many of us.

I thought I'd take you on a quick tour of what we're up to on the development front. So I've got a new slide there with 14 sites in the pipeline, and four on the go at the moment. During calendar year 2018 the plan is to complete our sites at Birkenhead, Greenlane, Petone and Pukekohe.

We're also going great guns at Devonport, Lynfield, and Brandon Park in Melbourne, all three of which are underway. We'd expect to welcome our first residents at those three sites during 2018 as well.

Currently in the consenting process are Burwood East, and Coburg in Melbourne, and also Hamilton back here in New Zealand. Ideally we will be in a position to start all three during 2018, subject to consenting approval. You can see we've got plenty of other sites in the design phase.

So we're now well underway on our second village in Melbourne, in Brandon Park. Here's a drone shot of that. What you can see in that photo is sort of the main block and the care centre at the front there, and more to the top at the right hand side is the first stage of apartments.

The first apartment block is going up quickly, they only got started about a month ago and that's the progress to date. We've also started work on the village centre. When I visited the site recently I was really impressed with the leadership team that Marty Osborn, who's our Victorian Construction Manager, has established.

We have recently invested also in experienced on the ground development professionals and we are expanding the concept and building design team, especially for Victoria.

We will welcome the first residents - coming back to New Zealand, we will welcome the first residents at our Greenlane village in Auckland early next year. Its going to look amazing on completion. We had a visit there with the Board this week, and you can see why we've pre-sold so many already because it's got amazing views back over the harbour, panoramic views around Auckland and back to Cornwall Park.

It's going to be an amazing village I reckon. It's sort of - when I see villages like that it always reminds me that the development team do a great job of finding sites and getting them consented.

We're also well underway at Devonport and Lynfield, and we've held public meetings with each site in the community, and Debbie and I do those. More than 400 prospective residents and their families came along to hear what we have to offer. Also along with a couple of competitors actually in their branded vehicles. Pre-sales for both have been strong.

Those four villages I've been talking about - Greenlane, Devonport, Lynfield and Brandon Park - so they'll be coming on stream in the coming year. When fully built will be home to more than 2000 residents, adding to our Ryman family.

As David mentioned earlier, the development team have secured a new site in Victoria at Mount Martha, which is on the Mornington Peninsula. There's a good aerial view of its location there. The Peninsula is home to a large retired population, and Mount Martha was identified as an area with a shortage of care beds.

Of course it adds to our presence on the Peninsula because we also have a site in Mount Eliza. It's a great site for a medium-sized village, and we now have seven sites secured in Victoria. In fact the Victorian landbank is now matching that in New Zealand.

We will continue to add to the landbank to keep the pipeline going, and to ensure we establish an annual rollout of two villages per annum in Victoria to match New Zealand. I have to say there's plenty of new sites on the radar. We saw a few at the Board meeting a couple of days.

We have actually learnt a few lessons though from our experience of getting our recent large scale villages underway. To be frank they've taken longer than we would have hoped. As a result we've added new resource to our design and development teams and we've changed the way that we approach community relations. We have a much better working relationship with Auckland Council in particular. That's where we've got five high value new villages in the pipeline.

Resources of every kind have been under pressure in Auckland, and that includes consenting staff at the council. We have worked collaboratively with them to ensure our consenting processing is better streamlined, given the significant role that Ryman plays to both increase and free up housing supply. Also to build critical healthcare infrastructure for the region. We've added a new design team based in Auckland and we've reorganised our teams in Christchurch with the aim of speeding up the throughput of consented designs.

So over and above the four villages underway, we've also got another 10 villages in the landbank to take us well out to 2022. We're keeping an eye on the property market of course. The fact remains though that residents moving into our villages are typically in their late-70s and beyond. They make their decision based on health needs and security, rather than on what the housing market is doing.

Our needs based demand was affirmed in the first six months with another strong sale - another really strong performance by the sales team. So whilst the New Zealand real estate market volumes actually came back 20% in those first six months, our resale volumes grew by 12%. So that really shows that what we're doing is really [delinked] from the sort of volumes transactions you see in the housing market in general

Also couple this with the fact that our forward order book with unconditional new sales for villages under construction, they're actually at the highest level that I have seen them in the 11 years I've been at Ryman, at over $200 million. So we're in a strong position.

We've also just increased our pay for our village staff again, following an equal pay settlement. We've also introduced improved benefit packages for our staff as well. Staff are sharing in our success and we got great feedback from the review that we did in October.

I must admit I remain concerned about immigration settings. We will continue to lobby at a government level to make sure that our immigration team members at Ryman are recognised for the contribution that they make. We will always fight to ensure that our Ryman family members are fairly treated, and are recognised for the vital work that they undertake for our residents.

So that's just a brief overview of the past six months, and a taste of what's to come. You can see there's plenty going on. I think when I reflect on it, it's just amazing to me that after all this time at Ryman it feels genuinely like we're just getting started. Victoria, you look at that, it's only in its infancy for us. We've already got seven sites secured there now.

Even in New Zealand we're just at the start of the most fundamental change in demographics that we'll ever see. That endures for decades, as it does in Victoria as well. So that's why we're investing so much in people and innovations right now on both sides of the Tasman.

Then just finally, a big occasion for Ryman. During the half we became the official sponsor of the Coburg Lions Aussie Rules team. The Coburg Lions ground backs onto our new site in Coburg, and in the photo there if you can see Sebastian on the left who's one of the club officials. We've got Debbie McClure, Andrew Mitchell, Tom Brownrigg from Ryman, and also Keith who's one of the club president there as well.

So they're our neighbours, they're very supportive of what we do. You can see the Ryman logo in the background there on the scoreboard. So we look forward to learning a bit more about Aussie Rules and supporting the Coburg Lions over the next winter.

So overall it's an incredibly exciting time I reckon to be part of Ryman whether you are a member of staff, whether you're a resident with one of our villages, or moving into one of our villages next year, and also for shareholders. It's really just - we've just sort of started getting going.

So thank you very much. I'll hand over to David Bennett now. I will just say for poor old Dave that he has man-flu. So he's coughing and spluttering a bit, but he's going to play on like Colin Meads.

David Bennett: Thanks Gordie, and good morning. Our underlying profit of $85 million is an increase of 11% on last year. With the big driver being resale gains which were up 55%, and management fees which lifted 24%.

We had a satisfactory lift in our reported profit, up 8% to $203 million. This was on the back of good trading and valuation gains of $118 million. The valuation was up firstly because our valuers lifted our five year-plus long-term growth rates from 2.8% to 3.4%.

This compares to the long-term average actual house price increase of 6.5% since 1992. So we would view this as conservative. In the short-term the growth rates reflect a flattening housing market, with an average of 1.9% per annum over the next four years.

Secondly we added 137 new units to the valuation. Finally prices lifted 4%, reflecting strong demand for our village offering.

Resales have been a big driver of earnings this half. The resales bank of gains still to come increased slightly to $770 million. These pent up gains mean we can expect our resale earnings to keep on growing. Even if the housing market was flat for several years because volumes increase as the villages mature.

The deferred management fees also reset to new price levels with each resale, creating a compound effect. Strong resale earnings are also a function of growing demand with volumes increasing 12%. Only 46 units, or less than 1% of our portfolio, were available for resale at the end of September.

Care demand was very high as well, and we averaged occupancy at 97%. The aged care sector in general is averaging around 87%, so we are significantly outperforming the market.

We have a very strong financial position with total assets of $5.3 billion. Shareholder equity has lifted significantly to 23% - up by 23% to $1.8 billion. Our debt has increased to $945 million as we continue to grow both the landbank and invest in new villages due to open in 2018.

Our debt to debt-plus-equity ratio is 34%, which is consistent with prior halves. So our debt is growing in line with our balance sheet. We regard it as productive debt. We invest the bulk of it in new villages where we recycle capital, which establishes a growing tail of recurring cashflows.

We continue to have very supportive banking partners and we have recently added the Bank of Tokyo-Mitsubishi to our syndicate. Our total bank facility is now $1.25 billion, which means we have over $300 million of bank headroom.

Our development margin for the half was 17%, which is lower than our target range of 20% to 25%. This is a direct result of Bob Scott in Petone which we have previously advised is a lower margin size due to the seismic requirements.

Excluding Bob Scott, our development margin would have been 20%. For the full year we're expecting our margin to be within the target range.

Affordability of our units is something we monitor very closely. This chart shows you what I mean. Our residents in Auckland and Melbourne free up significant amounts of capital when they move into a Ryman Village. So, there remains plenty of price headroom for incoming residents.

With 14 new villages in the pipeline, and a large resales bank, we can expect the capital sums in our villages to more than double over the next five years. This will grow from $2.6 billion today, to over $5.4 billion. This growth not affects not only a ramp up in Melbourne but also the economic benefit of building in higher value locations.

A significantly larger capital base is the foundations for much bigger occurring cashflows from both resales into MF in the future. On top of this, we get increased care earnings from building more aged care beds, or as David described it earlier, each village creates a new economic engine to power the growth of the company.

What triggers our ability to growth in this rate is simple. It's our business model of recycling capital at each village. This listing in 1999, and raising $25 million, we have now invested $2.8 billion, and paid out the growing dividend stream to shareholders of $630 million, but we've never had to raise any fresh capital.

So, the outlook for the full range has an underlying profit in the range of $195 million to $210 million. Before I hand back to David, I want to highlight to you that we have made some additional disclosures on resident average age, our debt composition, valuation assumptions, and vesting cash flows, and average tenure of residents of vacated units with some appendices to our results presentation. Thank you very much, and over to David.

David Kerr: Thank you very much Dave. That's great. You can see he's not in the best of shape today. Look, this is now a time for some questions. If we take the questions from the floor first of all. Maybe if we can just have a microphone for any questions so they can be well heard. So, if you'd just like to raise your hand if you have a question.

Jeremy Simpson: (Forsyth Barr) Jeremy Simpson at Forsyth Barr. Just in terms of some feedback on the consenting progress in Melbourne would be interesting too on Coburg, and Burwood East, and how that's going I guess relative to the lengthy process there was at Brandon Park. Just also just confirm again, I missed it when it was in the presentation, what first residents you're expecting to get from what villages, and financial in the second half basically.

Gordon MacLeod: So, consenting progress at Burwood East. We've had good discussions with the local council there. They've been supportive of our plans and what we're planning to do. One of the things which needs to be worked through for the site, which probably won't take place until about February next year, is that the development plan overlay which Frasers Property have control of for the whole site because we bought a parcel of land on that site from then, they need to get that approved from the council for our development to able to proceed.

So, we've submitted all the plans and everything we need to do. We're getting good support from council, and we're also just waiting for that technicality to work its way through as well.

For Coburg, we're actually presenting to the local councillors before the end of this year. We've got a date locked in. At that meeting we may or may not know exact timeframe after that, but we would be hopeful for a positive response. The officials at the council have been really positive with what we're planning to do.

That site had preapproval for a reasonable number of storeys on site which we've respected. We've also been working with neighbours as well to make sure they are comfortable with what we're doing along boundary lines. Of course, one of the neighbours being the Coburg Lions are happy with what we're doing as well. Bringing new sort of supporters along to the club.

In terms of residents moving in in the second half of the year, we would expect the first residents at Greenlane to move in sort of February/March type timeframe to the apartments that run along the back of the site there.

At Lynfield, and also Narrow Neck, there would not be any residents moving in during that timeframe. They are more sort of July to September type timeframes for the initial apartments there.

At Birkenhead, we will have more residents moving in between now and the end of March as well, but not for the final stage. Stage 3 will be into the next year.

Brandon Park, we would expect our first residents to move in around about July next year. But we would expect the work on site and obviously the unconditional contracts to mean that we would be able to recognise some of that and our underlying profit for 31 March.

Jeremy Simpson: (Forsyth Barr) Great, and just one other question. Just some comments around operating costs, pressures, and I guess the equal pay situation and now the minimum wage situation, and how you're feeling that, and the impact of that on margins.

Gordon MacLeod : So, the equal pay settlement which purely related to care givers in our villages was fully funded by the government. We have actually reviewed our pay levels subsequent to that. We have actually lifted our nursing pay, and also the pay for our auxiliary staff of villages as well.

The ongoing costs of that is in the region of, I think it was annualised at about $5 million per annum, that uplift. Obviously, one of the things that we do at our villages because they are well above government specification, and we provide outstanding offering, is that co-payments obviously from residents' fund that wage increase in terms of new residents coming in.

In terms of the minimum wage of $20 an hour which has been muted from 2020 or 2021, whatever it is, the majority of our staff at our villages work in care centres. At our care centres. So, the age related residential contract, or the ARRC contract which governs how our care centres work, have a specific clause, that if a government mandated change outside of the sector's control is put in place, which materially increases the cost base of a provider, then it's the government's responsibility to fund that.

So, when those calculations are worked through, and how that phasing works through, generally our expectation is that the majority of that cost increase will be funded. Look, it's just generally good to see staff on a positive track for better pay. Whether it be through equal pay, the recent pay review that we've done. So, that's why I think it's good that it's good that Ryman is profitable and it's good that we're able to invest some of that profit back into our staff, and share that with our staff.

Jeremy Simpson: (Forsyth Barr) Thanks for that.

Gordon MacLeod: And hand in hand with that we've seen staff turnover decrease which is really good. It means that people are enjoying their work. They're staying with us. We're getting the benefit of the extra training they get.

Daniel Frost: (Macquarie Bank) Daniel Frost, Macquarie Bank. Just a couple of follow up questions. First one. I don't suppose you can give us some numbers as to what sort of completions you expect in the second half.

Gordon MacLeod: No. Well look the focus, the three sites that will be most material contributors to the year end result will be at Birkenhead, Brandon Park, and Greenlane. At the bottom end of the range, we've allowed for the fact that maybe one or two of those sites will have less progress than at the upper end of the range.

The upper end of the range will be a better run on in terms of build. So, it's early days yet, Dan. A lot gets done I found at a site even between sort of Tuesday and Thursday sometimes, so we'll just have to see how that pans out.

But that's why I've given a range, and also because of the fact that resales, you know resale gains are about $50 million in the first half. Each resale on average generates capital gain of about $135,000. So, the number of resales that come up can have a reasonable impact as well.

Dan Frost: (Macquarie Bank) Sure. Thanks for that. Just into FY18, I don't suppose you can give us any sort of feel as to what sort of completions we should expect in FY18. Sorry, FY19.

Gordon MacLeod: FY19. So, FY19 I think might be looking reasonable good actually. I don't really want to dwell onto too much detail on it though. We'll talk about that in May, hey.

Dan Frost: (Macquarie Bank) Fair enough. Just on the wage increase that you talked about that was annualising $5 million, when did that get instigated.

Gordon MacLeod: From 1 November.

Dan Frost: (Macquarie Bank) Finally, just a question that always gets asked, just on the housing market. What sort of drop in sales rates in the housing market would we need to see before you'd start to see some impact in your results?

Gordon MacLeod: That's interesting. In the first six months of the year, you probably regarded as a reasonably material movement, the volumes and the market dropped 20%. That hasn't been seen for quite a while. Now our resale stock, as Dave said, was only down at 46 units. We get about 70 to 80 units come available for resale every month. So, 46 units available is well under a month trading stock.

I think in those sorts of conditions it shows the needs base model right across the group and the demand at existing villages then. In terms of new sites, the fact of the matter is right now we're sitting on the highest number of presales and presale contracts that we've seen.

I guess the initial part of the market slowdown is the 20% drop in volumes, and we're trading well. We've not had to move pricing at all. It's probably instructive to look back to the global financial crisis I suppose, which for us during a six-month period between 2008 and 2009, the housing market in New Zealand, the volumes dropped by two thirds. The days to sell doubled from 30 to 60, and prices dropped 10%. It all happened in a six-month period.

During that time, we didn't have to move our pricing, because we always take a reasonably conservative view on pricing, and you could see from the slide that Dave showed that there's considerable headroom between the price that a resident would expect to get in a suburb, and what we're currently charging for a serviced apartment and independent unit.

So, look I think that having traded--you know when I remember trading through that we were very careful all the time. We only committed to new stages. We would sell down the previous stage. Because we were conservative in pricing we didn't have to move much.

The other big think about us, I think, is we've talked about the needs base. Dave has talked about that, but we're also building villages which have strong demand. The areas where we build villages, they're not sort of fringe areas. So, what that means is that residents are moving from a well-established area which is in good demand, through good times and bad.

So, even during the GFC residents are selling their homes fine. The reason for that is that ultimately, you have about 95% of the population who are employed in reasonably economic conditions and they have things like babies. They have extra children. They want to move into a family home, and they want to move into areas where there's established infrastructure, schools, playgrounds, not out to the fringes necessarily.

So, as a result, the stuff of life, I sort of call it the stuff of life, continues to happen. Residents will still be freeing up capital. The health needs will still be there. So, we would expect to just trade through like we did prior in the past over the worst financial conditions since the 1930s.

Gordon MacLeod: I think the other thing Daniel, is that those sorts of situations, and that environment often will give us lots of opportunities around land that we wouldn't have in a more heated environment.

Dan Frost: (Macquarie Bank) Great. Thank you.

Arie Dekker FNZC: Good morning.

Gordon MacLeod: Hello Arie.

Arie Dekker FNZC: Just three questions from me. Firstly, could you just give an update in terms of extending [unclear] into care. I know it's sort of been a topic on the agenda for a wee while. Just any update on your thinking on that.

Gordon MacLeod: Just for the broader audience we get capital sums and care in Victoria which is a key part of the economic appeal I guess of expanding into Victoria. In New Zealand, we're still continuing to run with a co-payment or room premium strategy. It's really well understood by the market, and it's providing us with reasonable returns to cover the shortfall in government funding that exists in the aged care funding model.

We have looked at doing capital sums and care in New Zealand, and we're just not in a massive rush at the moment, Ari, the premium co-payment model is well understood. I think there's some regulatory issues which need to be worked through a wee bit more.

At the moment, to do it under the current regulatory environment it would be under the *Retirement Villages Act* with needs for things like AGMs and complex disclosure statements and that sort of thing. We're just thinking through whether that works so well for an aged care resident.

The bond model in Australia is sort of a more simplified model, and I think it's clearer for people.

Arie Dekker FNZC: That's great. Thank you. Just on the bank facilities. Just a quick one. Can you just across the $1.25 billion of funding just give us the tenure of the debt.

Gordon MacLeod: Yeah, it's three years.

Arie Dekker FNZC:The whole lot.

Gordon MacLeod: That's been our approach. I remember a few years ago I reluctantly increased it from two-year tenure, so a three-year tenure because it had an increase of line fee associated with it. We've always seen it as working capital funding, Arie, so we sort of worked on the basis that over roughly a three-year period we would pretty much work out almost all of the debt if we were to stop developing, which by the way we're not.

So, we see the tenure as working capital related and it reflects that.

Arie Dekker FNZC: And just in terms of hedging, are you still running low hedging from an interest rate perspective?

Gordon MacLeod: Yeah we have, yeah.

Arie Dekker FNZC: Cool and then just the last one, for you perhaps David, could you just restate what the change in the long term growth rate was in the half and whether there was any change in the discount rates?

David Bennett: So there is no change in the discount rates. The long term changed from 2.8% to 3.4% on weighted average.

Arie Dekker FNZC: Thank you.

David Kerr: Any other questions in the room? John.

John Boscawen: (Shareholder) John Boscawen. Gordon, you discussed in some detail about planning stages for the next two or two of the Melbourne sites, you haven't commented on the New Zealand site. I've got a number of questions relating to New Zealand.

Gordon MacLeod: Sure.

John Boscawen: (Shareholder) The first one, Hamilton, you've talked for some time, probably at least the last 12 months, about starting Hamilton very soon. Can you give us an update on the resource consent process in Hamilton? Secondly, could you give us an update on the design process for Lincoln Road and Hobsonville and when you expect to be in a position to lodge resource consent applications and how long you might think that will take?

Then finally, I attended your public meeting at Takapuna recently, as you know and I hadn't been aware until then that there was an old brickworks on the Devonport site and it's subject to archaeological excavations. Visiting regularly, I know that there has been virtually no movement or no construction activity on Devonport since April when you got resource consent. I just wondered when the archaeological work on Devonport will be completed and when you actually expect to start progress. Lynfield's obviously more underway than Devonport. Thanks.

Gordon MacLeod: Yes it is, thanks John. I wrote all those down actually, I would have forgotten all those off the top of my head. Okay, so let's start with Hamilton. We have a hearing scheduled for Hamilton with the council in February next year and that was notified by the council on a limited notification basis. We'll just have our usual experts appear before the hearing. Our development team feel that we've got an excellent proposal that sits very well on that site; it's a beautiful location, River Road. You've been to the site. So it's really well positioned for Ryman Village. There's more need for that, for critical health infrastructure in Hamilton.

Look, it has taken longer than we would have wanted to, to get to the end. When we look back on it, my view is that we were just under-resourced and the design and consenting area internally inside the Company, as you go back 12 to 18 months, we weren't able to do enough things in parallel. So when I was talking earlier, that's why we're investing in more design and consenting resource, both from the conceptual design area, but also the building consent design area. Because ultimately we're on a path to pretty much double our build rate in the next two to three years, so we just need more people.

When you look at that line of villages that are coming through, we're keener that we're able to progress more things in parallel, rather than sort of sequentially, if you like. So we acknowledge that Hamilton has taken longer than we would have liked, but the hearing is February.

So the next one was Lincoln Road; so we're currently designing that one at the moment. That's at a reasonably advanced design stage internally. We've engaged all our usual consultants around traffic management, geotechnical and so on, structurally engineering and we expect to submit a consent for Lincoln Road hopefully before the end of this calendar year. Hobsonville is still very much in the conceptual design phase at the moment, so that's still got some time to go, but we're looking to really push on with Hobsonville as quick as we can from here.

The brickworks, so like you, I have visited the Devonport site, been to the site on a few occasions and wished more was happening. The reality is that there was a Duder, a family brickworks there on site many years ago and as part of our resource consent conditions, we have to excavate the bricks, uncover them, we have to document them, how they were found, we have to carefully remove them, we have to store them on pallets and the bricks that are in reasonable condition, we will use them in the village as some sort of design feature or some sort of feature onsite at the village.

We've also had a community open day at the end of October there, about 250 people came along on a Sunday or a Saturday to have a look at the archaeological dig that we were doing and talk to people about what we've found and that was really popular. We're just - we've nearly finished that work and when I saw Matt Hutchinson yesterday, he's hoping to get into the stage, the first stage of a part and proper excavation imminently, John. It has, again, we would have liked to have started more significant works there earlier, but we had to respect the conditions that we had to operate under.

David Kerr: It is a great site, John, isn't it and it'll be worth the wait.

John Boscawen: (Shareholder) There's nothing else it can seem to me, that you're proceeding on Lincoln Road ahead of Hobsonville, despite having acquired Hobsonville prior, which makes a lot of sense. Thanks.

David Kerr: Other questions from the floor? We might go to questions from people online. Are there any questions on the air?

The first question comes from Jason Familton from Accident Compensation Corporation. Please go ahead.

Jason Familton: (Accident Compensation Corporation, Analyst) Morning guys, just a couple from me. The first one, there's been some well publicised construction cost inflation across the sector, I'm just wondering what you guys have seen potentially in Auckland specifically over the last six months.

Gordon McLeod: Probably the biggest challenge, Jason, is around resourcing. I don't know why I've looked at the speakers to answer your question by the way, seeing it was on the microphone. So the biggest constraint is really around resourcing, so finding really good quality people on sites is always a challenge for the guys. That's why we invest in our own people, being the project managers, the site foremen and the leading hands because we want to have strong Ryman leadership onsite.

Cost inflation hasn't been too bad in the last few months, but if I think about it over the last two years, it's certainly been a reasonable amount, but I think for a lot of people building in Auckland, it's probably the resourcing that perhaps is the greatest struggle.

David Kerr: I think the other thing, Jason, is that when we're building at a number of different sites in Auckland, it means that the subcontractors can go from one site to the other, we have some continuity in terms of the quality and they enjoy working for us. So there are some advantages there as well.

Jason Familton: (Accident Compensation Corporation, Analyst) Okay and the second is probably a more detailed question, but what's been the feedback from those residents in your aged care part of the business where they're not subsidised by the government but have had to fund to increase costs themselves? Has there been any impact on what premium charges you can do in that environment?

Gordon McLeod: Actually we got very little feedback on it, Jason. So it's a very good question. What Jason means by that is that if you're not subsidised to receive aged care, those private paying residents essentially had to fund the equal pay settlement. The Minister of Health at the time, Jonathan Coleman, made that very clear when the equal pay settlement was announced.

But you know what, I think that a lot of families feel that if they're over the asset threshold and there's been a government change which means that the people caring for their loved ones get paid better, I think most people have been comfortable that that's a cost that fairly sits with the user of the service. So we didn't get any pushback on that and it hasn't affected our premium collection ability either.

Jason Hamilton: (Accident Compensation Corporation, Analyst) Cool, great, thanks for those answers.

Operator: Thank you. Your next question comes from Stephen Ridgewell from Craigs Investments Partners. Please go ahead.

Stephen Ridgewell: (Craigs Investment Partners) Thank you, most of my questions have been asked by the other analysts, but I just wanted to follow up on Dan's question, just about price trends across the portfolio. Overall looks pretty solid, but just wondering, Gordon, if you could provide a little bit more granularity on what you've seen in Auckland versus the rest of New Zealand and Melbourne. Have you been able or has Ryman been able to achieve like-for-like price growth on units at mature Auckland villages over the past six months? Thanks.

Gordon MacLeod: Yeah, we have actually, but it's been relatively muted because the majority of that price uplift has occurred over the last two to three years. But pricing has been held firm and slightly up.

Stephen Ridgewell: (Craigs Investment Partners) Great, thanks. Also noting your comment earlier that pre-sales demand is at record highs, which is great to hear, can you just comment perhaps on the pre-sale demand you're seeing at Brandon Park and you previously commented that it has been strong, any granularity you could provide there would be helpful.

Gordon MacLeod: We've pre-sold well over 50 independent apartments so far. Probably the wrinkle there in the market, just as I said is a short term thing, was that there was a lot of negative publicity about the retirement village centres generally in the last two months regarding a major provider over there. It's just caused residents wanting to get up the knowledge curve a bit more about how retirement villages work and the terms and conditions. It's provided us a great opportunity to explain the Ryman difference. So we have a one-page Ryman difference flyer that basically summarises our key terms and how they differ from what you would typically see from providers in Australia.

Certainly our deferred management fee at 20% which we don't restart between units compares to a range, but up to 40% in the sector there. Usually there's increasing weekly fees in the sector there, ours are fixed for life. We have a continuum of care at a Ryman village, five different levels of care. Often at a competitor's village, you'd be talking about either retirement living or nursing care, very few integrated facilities. As you can see from Brandon Park, we commit to building the main block right at the start, so that includes all the community centres. So you do read articles in the paper there about villages that have been operating for some time and still to build things like the community centre.

So I think these are kind of good moments for the sector and potentially for us because it gets us to really explain the Ryman difference in more granularity, it sort of becomes more real for people and it make them understand the questions that they should be asking. At the same time, Debbie McClure, who is our Group Sales Manager and Community Relations Manager, she's the president of the Retirement Living Council for Victoria. Given that we've only got one village there, sort of shows the standing she's held within the sector and she's been able to have and I've joined her as well, with discussions with state government officials regarding potential changes to the legislation there to give more consumer, more resident protection. I think a really obvious one is to have independent legal sign-off for retirement village contracts.

Stephen Ridgewell: (Craigs Investment Partners) That's great colour there. Just on the theme of Australia, just in terms of the development update slide in the pack, it still looks like Burwood East is the next cab off the rank after Brandon Park, if you like. As it stands at the moment, would it be a reasonable expectation that we should be thinking about some units could be completed there in calendar year 2019?

Gordon MacLeod: I'm always reluctant to say because we haven't got a consent yet. So I'd feel like I'd be giving myself that commentator's curse of death when they say that someone's been batting well and I'm 99. But look, I'd hope to get underway there in the next financial year, all being well.

Stephen Ridgewell: (Craigs Investment Partners) Okay, yeah, that's helpful. Obviously understand there's consent issues you've got to navigate through all the projects and that is what it is, but just in terms of the comments on extra development resources for Auckland, can you just give a little bit more colour on the quantum of that extra resource?

Gordon MacLeod: Yep, so when I was at the regional office yesterday, we had three full-time new designers based in Auckland. We've never had design resource based in our regional office before. One of them is a very senior designer from probably one of the leading New Zealand engineering firms and he's developing a really good team around him. I don't want to suggest what the cap of numbers might be, because we'll see how they go, but we're looking to continue to add to that team. I think it will be also really good to have on-the-ground design resource in a city where we've got a lot of work on the go and it will just be a lot easier to practically catch up with consenting officials in Auckland Council rather than doing everything by email and plane like we do at the moment.

Stephen Ridgewell: (Craigs Investment Partners) Can you just remind us of the model in Melbourne in terms of development resource? Do you think you might need to do that in Melbourne as well?

Gordon MacLeod: Yeah, so in Melbourne what we've done is Andrew Mitchell, who is our development manager, he's recruited a lead development person for that market who's very experienced in aged care and also just generally speaking in development. So he's already hit the ground running, he knows a lot of people at the key councils we're dealing with, so he's got good pre-existing relationships and we've got another experienced lady who is working alongside him. I'm not saying that's the end of the resource requirement, but having two senior people is certainly preferable to the presence of zero that we had and it means that Andrew is not having to basically drive our development process by when he can get on a plane and fly over there.

We need to have people on the ground to make this stuff work and so we're also going to be investing, for example, in a marketing person on the ground there. We're just building up our presence in Victoria because we want to have a strong local team and not so much management by aeroplane, if you like.

Stephen Ridgewell: (Craigs Investment Partners) That all makes sense. Just last one from me, just on the head office EBITDA, it seems to have declined a little bit over the last year, presume that reflects perhaps a touch of cost pressure from carrying over. Is that something that we might expect to see more of in the second half, given that weights to property settlement will impact the full trading period? I mean is there just a touch margin pressure on the aged care business? Would be helpful to get some comments there.

Gordon MacLeod: So in the first six months of last year, the four big facilities we opened, they didn't really start to get occupancy coming through in a big way until the second half of the year. So the losses that we typically incur in new village start-ups didn't really sort of kick in much in the first half of last year, whereas we were still very much in filling mode in the first half of this year. So we've sort of been dragged down a bit, the care earnings have been dragged down a bit in the first half of this year by those four new villages. They're all 120-bed plus, continuing to fill, but the good news is in the latter last couple of months, this includes October and November, is that the fill rate at those four villages is really starting to pick up really well, so we're making good progress on it.

Stephen Ridgewell: (Craigs Investment Partners) That's great. That's all from me, thanks.

David Kerr: Any other questions?

Operator: Once again, if you wish to ask a question, please press star/one on your telephone and wait for your name to be announced. There are no further questions at this time. I will now hand back.

David Kerr: Thank you very much, look why don't we have a cup of tea and a chat and have some informal discussion? Thanks for joining us and we'll enjoy chatting for the next wee while.

End of Transcript