

For personal use only



**Stockland**

## **Stockland Cash offer to acquire Aevum**

**2 August 2010**



# Executive summary

- ▶ Stockland is seeking to substantially grow its Retirement Living business with an attractive offer to acquire Aevum, a major retirement living operator, which values all of Aevum's equity at \$266 million**
- Offer is an all-cash off-market bid at \$1.50 per share, a substantial premium to the pre-bid closing price of \$1.09
  - Stockland has increased its relevant interest in Aevum to 15.9% following recent off-market purchases<sup>1</sup>
- ▶ Demonstrates Stockland's commitment to its 3-R growth strategy – Retirement Living, Residential Communities and Retail development**
- Will result in a larger and more diversified Retirement Living business:
    - Improves economies of scale and establishes a national platform
    - Enhances cash return with increased maturity of villages
- ▶ Would be fully funded from existing cash reserves, and undrawn and available debt facilities, and would not result in a material change to Stockland's strategic weightings or gearing**
- Expected to be EPS neutral in FY11 and ~2% EPS accretive<sup>2</sup> in FY12
  - Expected cash return on investment<sup>3</sup> ~8.5%pa by FY13, and growing
  - Fully funded from ample existing cash reserves, and undrawn and available debt facilities
  - Increases pro-forma net gearing at 30 June 2010 from about 18% to an estimated 20%
- ▶ A compelling offer for Aevum shareholders**
- Provides certainty of value at a substantial premium to market price

1. Stockland previously held 10.1% of Aevum's shares

2. Assuming a marginal cost of 3 year debt. Excludes transaction costs which will be excluded from Underlying Profit

3. Incremental pre-tax cash earnings as a percentage of cash investment; cash investment equals the implied enterprise value plus further investments in development

# Overview of the Offer

## Compelling Offer

### **Stockland has announced a compelling all-cash offer to acquire the outstanding share capital of Aevum**

- Off-market cash offer of \$1.50 per share, valuing all of Aevum's equity at \$266 million
- Implied enterprise value of \$358 million<sup>1</sup>
- Stockland is currently Aevum's largest shareholder with a relevant interest in 15.9% of Aevum shares, following recent off-market purchases
- Conditional on acquiring 50.1% of Aevum, no Aevum prescribed events no material adverse changes and no specified index decline

## Value for Aevum Shareholders

### **Offer provides Aevum shareholders with certainty of value at a substantial premium to market price**

- Offer price represents a 40.2% premium to 1 month VWAP and a 37.6% premium to pre-bid closing price of \$1.09
- Provides former IOR<sup>2</sup> shareholders with a premium of 4.9% above the effective price of \$1.43 per Aevum share issued in the merger
- 100% cash offer provides certainty of value

## Director & Shareholder Response

### **Stockland's recent acquisition of additional shares indicates strong market support for the offer price**

**Stockland approached Aevum's Board with its proposal on 30 July 2010. Stockland looks forward to a constructive dialogue with the Aevum Board**

1. Based on Aevum's 1H10 net debt of \$84m plus IOR's 30 September 2009 net debt of \$8m disclosed in the IOR Group Scheme Booklet  
2. Aevum merged with the unlisted retirement and aged care operator IOR in January 2010

# Accelerates growth and diversification of Stockland's Retirement Living business

1.

## Strong strategic fit

- Meets Stockland's strategic filters (portfolio fit and securityholder value creation)
- Asset quality and market positioning well aligned with Stockland portfolio
- Cultural fit and enhanced capability

2.

## Improves market position; creates a genuine national platform

- Delivers critical mass in NSW
- Highly complementary to existing Victorian and Queensland portfolios
- Adds to development pipeline with low-risk village extensions

3.

## Achieves scale

- Improved economies of scale from management of a larger portfolio

4.

## Improves cash return

- More mature villages deliver higher DMF cash yield



**Aevum will provide Stockland with well located, high quality assets that will accelerate Stockland's Retirement Living strategy to grow and diversify its existing portfolio**

# Transaction meets Stockland's financial criteria

## Value impact

- ▶ Expected to be EPS neutral in FY11 and ~2% EPS accretive<sup>1</sup> in FY12
- ▶ Almost doubles revenue and delivers economies of scale
- ▶ Accelerates growth and delivers some cost synergies

## Focus on cash flow

- ▶ Enhanced cash flow profile from increased maturity of villages
- ▶ Expected cash return on investment<sup>2</sup> ~8.5%pa by FY13, and growing
- ▶ Retirement Living business unit pro-forma cash coverage<sup>3</sup> increases from an estimated 38% in FY10 to c45%

## Strategic weightings

- ▶ Takes Retirement Living from 5% to approximately 8% of Stockland Group EBIT
- ▶ Post acquisition EBIT mix will remain within Group strategic weightings:
  - Target 60 – 80% recurring income
  - Target 20 – 40% trading income

## Funding

- ▶ Fully funded from existing cash reserves, and undrawn and available debt facilities
- ▶ Gearing will remain at conservative levels post acquisition
  - Increases pro-forma net gearing at 30 June 2010 from 18% to an estimated 20%<sup>4</sup>

1. Assuming a marginal cost of 3 year debt. Excludes transaction costs which will be excluded from Underlying Profit

2. Incremental pre-tax cash earnings as a percentage of cash investment; cash investment equals the implied enterprise value plus further investments in development

3. Measure of pre-tax cash earnings as a proportion of Operating Profit

4. Debt (net of cash) / Total Tangible Assets (net of cash)

# Aevum is the largest ASX-listed pure Retirement Living company



## Established Retirement Living Villages c80% of Net Assets

- ▶ Owns and manages 29 Retirement Living villages in metropolitan and regional areas across Australia
- ▶ 17 in NSW, remainder in Vic, WA, SA and Qld

## Retirement Living Development Pipeline c15% of Net Assets<sup>1</sup>

- ▶ 9 major development sites comprising c.800 brownfield ILUs

## Aged Care c5% of Net Assets<sup>2</sup>

- ▶ Exposure limited to 367 beds in 4 villages
- ▶ Development pipeline of a further 215 beds
- *Stockland would undertake a strategic review of the aged care operations to identify the most appropriate action, in line with its strategy to offer access to aged care services through specialist third-party providers rather than directly managed operations*

More than 35 years experience owning, operating and developing retirement villages

Employs around 200 people across Australia in Retirement Living<sup>3</sup>

1. Based on WIP as a percentage of Aevum's total net assets  
2. Based on Aged Care assets less Aged Care liabilities as a percentage of Aevum's total net assets  
3. A further ~350 people are employed in Aged Care

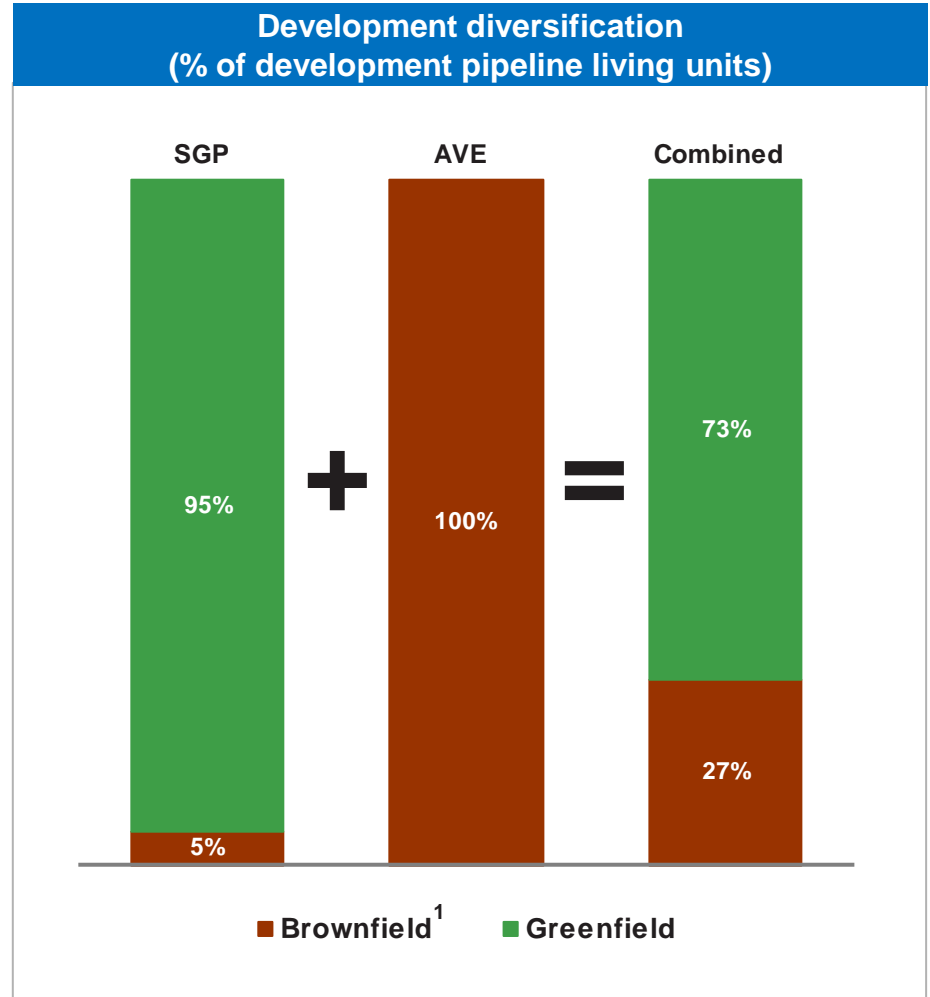
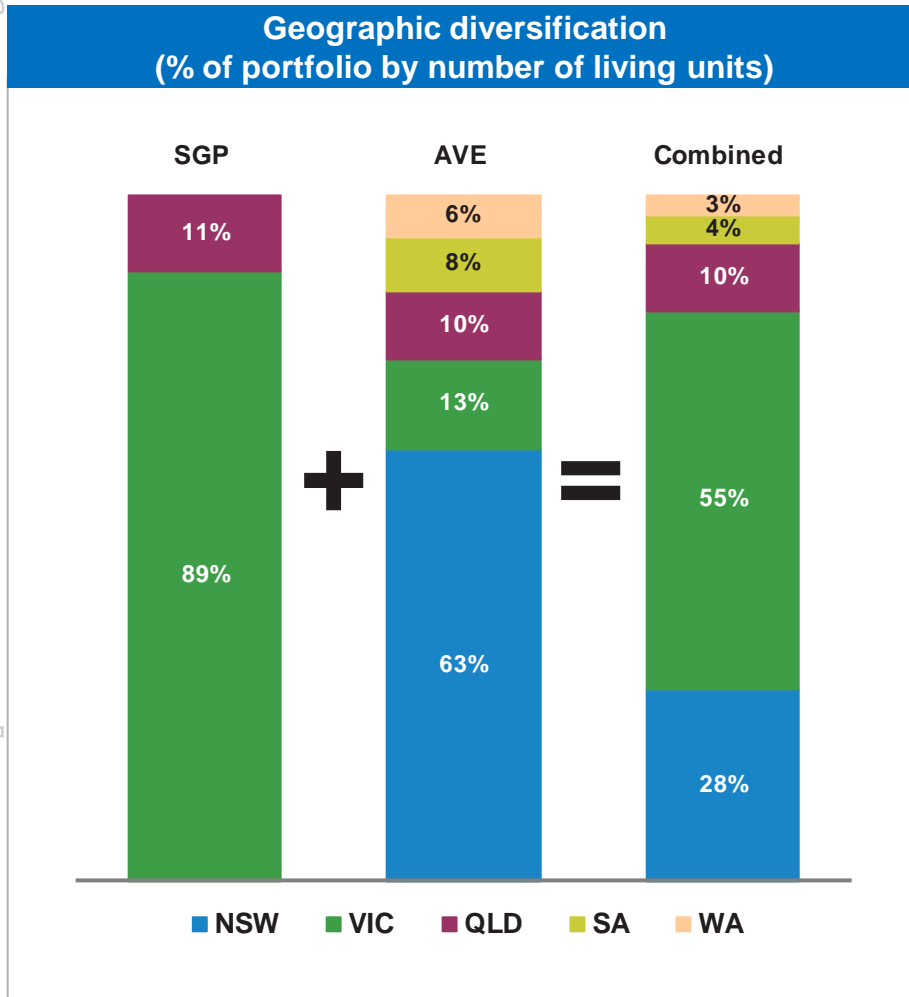
# Favourable impact on operational metrics; Stockland will become a top 3 Retirement Living operator

	Before <sup>1</sup>	After <sup>1</sup>	Change	
<b>Portfolio Size</b>	3,974 units	7,082 units	<b>+78%</b>	▶ <b>Nearly doubles portfolio size</b>
	24 villages	53 villages	<b>+29 villages</b>	
<b>National Ranking</b>	#4	#3	<b>+1 ranking</b>	▶ <b>Clear #3 in the market</b>
<b>Market Share<sup>2</sup> and Geographic Diversity</b>	c5% (2 states)	c10% (5 states)	<b>+c5%</b> <b>(+3 states)</b>	▶ <b>National platform; providing critical mass</b>
<b>Existing Units Turnover</b>	c.250 units p.a.	> 500 <sup>3</sup> units p.a.	<b>&gt; +105%</b>	▶ <b>Strong turnover from more mature portfolio</b>
<b>Village Age<sup>4</sup></b>	14.5 years	17.0 years	<b>+17%</b>	▶ <b>More mature villages support a higher cash yield</b>
<b>Development Pipeline</b>	c.2,800 units	c.3,600 units	<b>+29%</b>	▶ <b>Strong organic growth</b>

1. SGP figures based on 1H10 results; Aevum figures based 1H10 results and the IOR Group Scheme Booklet
2. Excludes the not-for-profit sector
3. Based on Aevum 1H10 annualised turnover settlements plus IOR FY09 turnover settlements
4. Based on weighted average village age, weighted by number of units

# Geographic and development diversification and critical mass

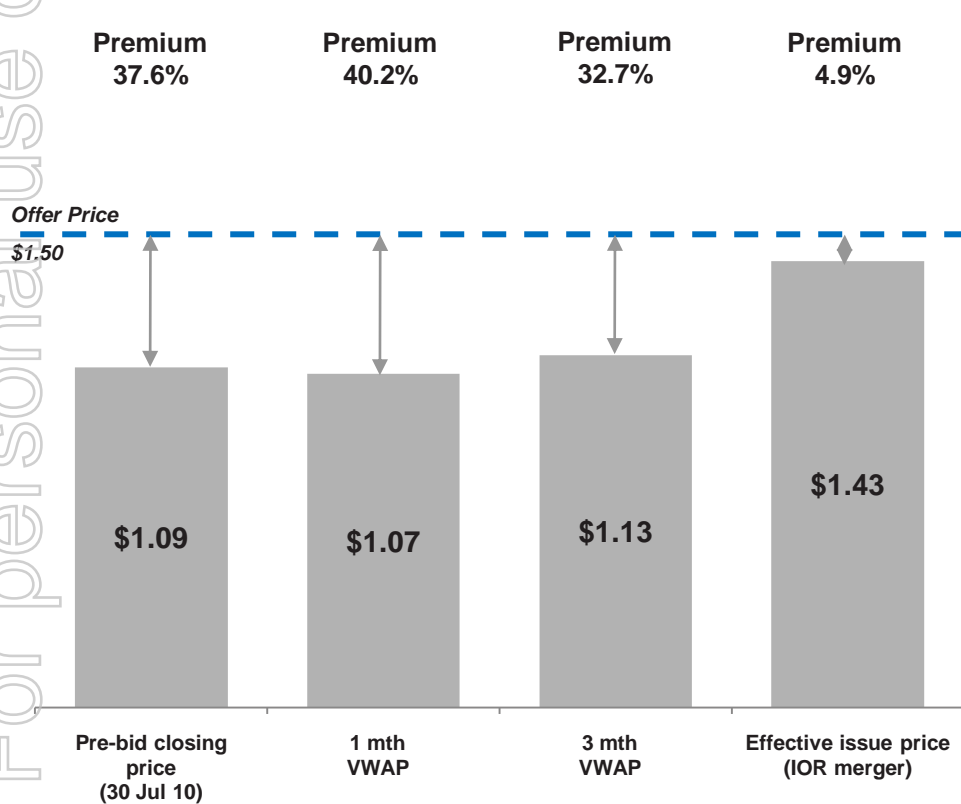
For personal use only



1. Brownfield means extension of existing villages

# Compelling offer for Aevum shareholders

The cash offer provides Aevum shareholders with a substantial premium and certainty of value...



Source: IRESS, IOR Group Scheme Booklet

... and allows IOR shareholders to realise a substantial premium on their Aevum shares



Source: IRESS

## Summary and indicative timetable

- ▶ Stockland has announced an attractive offer to acquire the 84% of Aevum it does not already own via an off-market cash offer of \$1.50 per share
- ▶ This transaction would substantially grow Stockland's Retirement Living business delivering an enhanced cash flow profile, economies of scale and a national platform
- ▶ This offer will provide Aevum shareholders with certainty of value at a substantial premium to market price

### Indicative timetable

Lodgement of Bidder's Statement	5 August 2010
Offer opens	20 August 2010
Expected lodgement of Target Statement	Early September 2010
Offer closes	Late September 2010

For personal use only



Stockland

Annexures



# Geographic spread of Aevum retirement villages

For personal use only

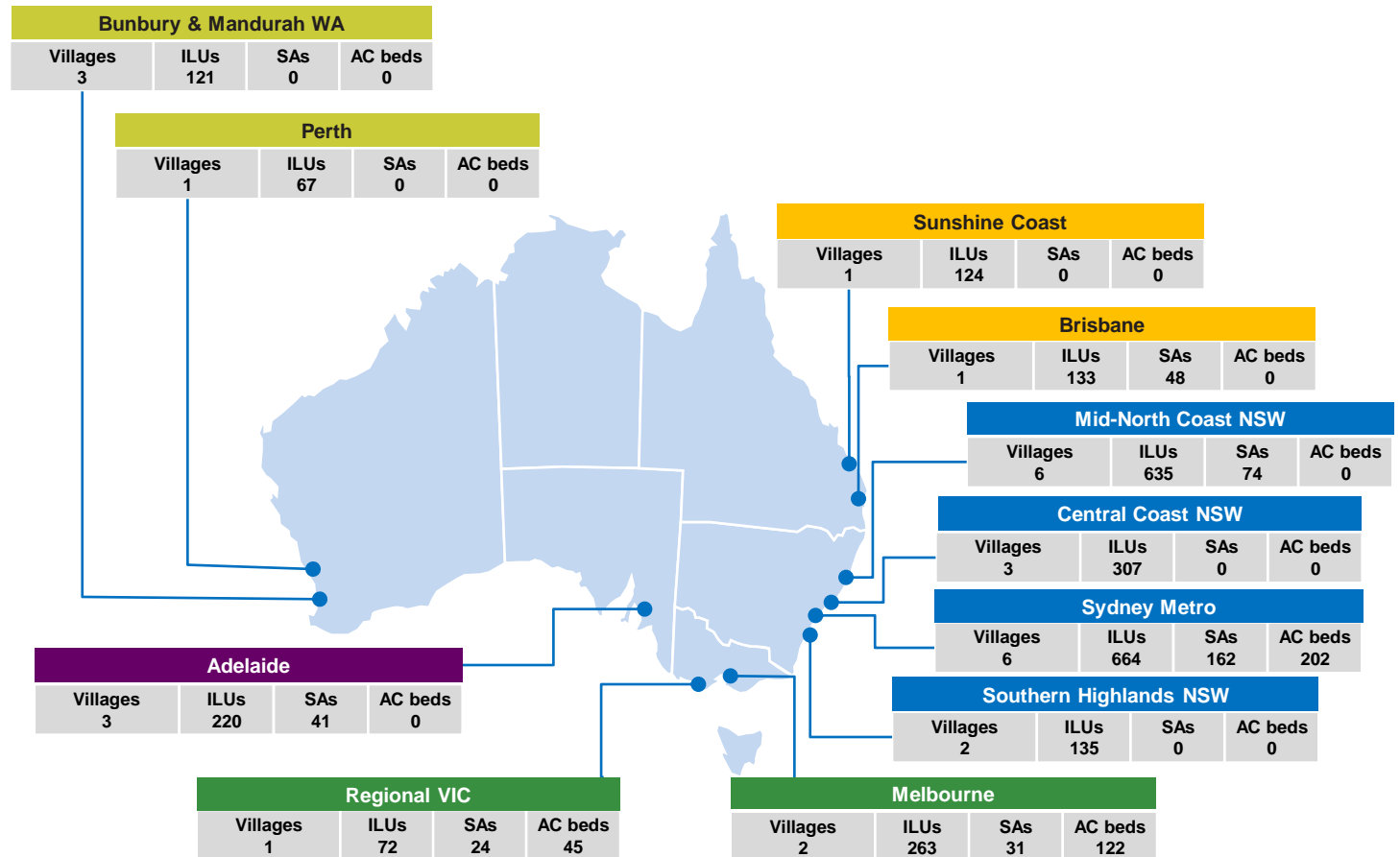
63% of Aevum's Retirement Living units are in 17 villages in NSW with the remainder spread across 12 villages in VIC, QLD, SA and WA

Not shown is Aevum's development pipeline of c800 Brownfield units

Aevum's current aged care exposure is limited to 4 out of 29 villages:

- Cardinal Freeman, NSW, 119 beds
- Lourdes, NSW, 83 beds
- Salford Park, Vic, 122 beds
- Gillan Park, Vic, 45 beds

## Geographic footprint Existing ILUs, SAs & Aged Care<sup>2</sup>



1. Metro Villages defined as being within 50 kms of a city with a population of at least 100,000 people  
 2. Source: IOR Scheme Booklet

# Recap: Why Retirement Living is a good investment for Stockland

---

For personal use only

## ▶ Retirement Living is a genuine megatrend

- 65+ age group will grow to c.20% of the total population<sup>1</sup> by 2030
- At the current take-up rate<sup>2</sup>, demand is expected for c.\$30 billion of new property over the next 20 years
- Potential for greater take-up rate as product evolves to better meet customer needs

## ▶ Residents value the product and experience

- Strong market demand for new village launches; deep waiting lists at established villages
- It's a lifestyle choice, not a property investment
- 89% of Stockland's residents are highly satisfied; "I wish I had made the move sooner" is a common remark

## ▶ Attractive risk-adjusted returns

- Longer term investment timeframe needed – villages approach maturity after 10 years
- Stockland aims for a balanced mix of short-term yield and earnings growth, and long-term IRR
- Blended IRR target in mid-teens

## ▶ Leverages Stockland's core strengths in Residential development and Commercial property management

- The advantage of offering significant amenity and by integrating with Residential and Retail in the broader community
- Significant experience in repositioning / redeveloping assets, managing customer relationships and efficient procurement practices

## ▶ Retirement helps maintain Stockland's strategic income weightings

- Combines stable recurring income with exposure to development profits

1. Source: ABS  
2. Current take-up rate estimated at c.4%, based on 2001 and 2006 ABS Census data

Stockland Corporation Limited  
ACN 000 181 733

Stockland Trust Management Limited  
ACN 001 900 741

25th Floor  
133 Castlereagh Street  
SYDNEY NSW 2000

## LEGAL NOTICE

The material in this presentation is a summary of the proposed takeover offer (“**Offer**”) for Aevum Limited (ABN 80 087 648 691) (“**Aevum**”) by Stockland Development Pty Limited (ABN 71 000 064 835) (as trustee for The Retirement Living Acquisition Trust), a wholly-owned subsidiary of Stockland Corporation Limited (ABN 43 000 181 733). This presentation has been prepared by Stockland Corporation Limited and Stockland Trust Management Limited (ABN 86 001 900 741) as responsible entity for the Stockland Trust (together “**Stockland**”).

The presentation includes an overview of the mechanics, key terms and perceived benefits to Stockland of the Offer. The information is current as at the date of release, 2 August 2010. Further details about the Offer are set out in Stockland’s announcement of the Offer released to ASX’s companies announcement platform on 2 August 2010 and will be contained in the Bidder’s Statement prepared on behalf of Stockland.

While every effort is made to provide accurate and complete information, no representation, express or implied, is made as to the fairness, accuracy, completeness or correctness of information contained in this presentation, including the accuracy, likelihood of achievement or reasonableness of any forecasts, prospects, synergies, benefits, returns or statements in relation to future matters contained in the presentation (“forward-looking statements”). Such forward-looking statements are by their nature subject to significant uncertainties and contingencies and are based on a number of estimates and assumptions that are subject to change (and in many cases are outside the control of Stockland and its Directors) which may cause the actual results or performance of Stockland to be materially different from any future results or performance expressed or implied by such forward looking statements. To the maximum extent permitted by law, Stockland disclaims any responsibility for the accuracy or completeness of any information contained in this presentation including any forward-looking statements and disclaims any responsibility to update or revise any information or forward-looking statement to reflect any change in Stockland’s financial condition, status or affairs or any change in the events, conditions or circumstances on which a statement is based.

This presentation provides information in summary form only and is not intended to be complete. It does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any securities and the information contained in this presentation should not be relied upon by investors or potential investors in making an assessment of Stockland, Aevum or the Offer or in assuming any liability or other obligation. Investors or potential investors in the securities of Stockland or Aevum should read the Bidder’s Statement and Target’s Statement prepared on behalf of Stockland and Aevum respectively for further information in respect of the Offer, and should consider seeking independent advice before making any decision in relation to the Offer. This presentation should also be read in conjunction with other publicly available material relating to Stockland. Further information including historical results and a description of the activities of Stockland is available on our website, [www.stockland.com.au](http://www.stockland.com.au). To the maximum extent permitted by law, neither Stockland nor its related bodies corporate, Directors, employees or agents, nor any other person, accepts any liability, including, without limitation, any liability arising from fault or negligence, for any direct, indirect or consequential loss arising from the use of this presentation or its contents or otherwise arising in connection with it.