Aveo expands its development pipeline and deepens its care capability with the acquisition of Freedom

Australia’s leading owner, operator and manager of retirement communities, Aveo Group Limited (ASX: AOG) today announced it has exchanged contracts for the acquisition of 100% of Freedom Aged Care Pty Ltd (Freedom).

Freedom owns and operates more than 1,000 units in 15 retirement communities across Australia in Queensland, NSW, Victoria and Tasmania, as well as a development pipeline of 533 units. The development pipeline includes 387 units in five of the 15 existing villages and a 146 unit site for an additional new village on the Sunshine Coast in Queensland.

Freedom has been acquired, based on its balance sheet at 30 June 2015, for consideration of $215.5 million plus acquisition costs comprising:

- The issue of $83.5 million of scrip in AOG at $2.98 per security and a cash payment of $10 million to the vendors;
- The assumption of $88 million in debt owed to lenders; and
- Deferred payment of $34 million in present value terms provided various performance conditions are met post-completion over a 4-year period.

The above consideration will be adjusted for working capital movements from 1 July 2015.

The acquisition will positively contribute to Aveo’s target of growing its return on retirement assets to 8% by FY18 and is accretive to the Group’s earnings per security in FY17 and beyond. Aveo’s forecast underlying EPS growth will now be at least 6% for FY17 and FY18. Reported gearing post-acquisition is 13%, well within the Group’s target range of 10%-20%. The Aveo Group syndicated facility lenders have approved to increase the facility by $100 million to $400 million to provide additional capacity to fund the increased development pipeline.

The acquisition of Freedom is a key component of Aveo’s strategy to increase the levels of care and support services to its residents. It follows the acquisitions last year of a 50% interest in two allied health businesses, Mobile Rehab and The Physio Co. Freedom retirement communities are unique private care retirement communities under the Retirement Villages legislation, dedicated to delivering unmatched levels of freedom, lifestyle and care with 24 hour nursing available. Its offering is to residents with initially low to moderate care needs.

Freedom, like the existing Aveo Retirement Established Business, generates earnings from the deferred management fee model. Freedom’s average resident age is 85 years with an expected 4 to 5
year occupancy period. The current Freedom contract offered to its residents is a 40% deferred management fee charged on entry price plus a 50% share of the capital gain.

Aveo CEO Geoff Grady said: “This is a significant, long-term investment in building our care offering and is underpinned by Aveo’s commitment to grow with older Australians by inspiring greater living choices.”

“Post-acquisition of Freedom and with the rollout of our existing development pipeline, Aveo will be operating 95 retirement communities with nearly 17,000 homes for elderly Australians, making us the largest owner and operator of retirement communities in Australia.”

He continued: “We are very pleased to welcome the residents, owners, management and staff of Freedom to Aveo. The high standards of care and support services that Freedom maintains give elderly Australians and their families more choice and independence in their retirement living arrangements. Aveo is committed to care for residents at all our retirement communities and the acquisition of Freedom deepens our capability across our business.”

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