

Aged Care Sector

Montgomerie-Ibbotson Aged Care Pricing Index

AARON IBBOTSON CFA

aaron.ibbotson@forsythbarr.co.nz
+64 9 368 0024

MATT MONTGOMERIE

matt.montgomerie@forsythbarr.co.nz
+64 9 368 0124

As interest in COVID-19 and its derivatives in the form of lockdowns, vaccines and the Trans-Tasman Bubble fades, New Zealanders are back focussing on their favourite topic; houses. Google searches for "houses for sale" are at an all time high, surpassing interest in yesteryears by a significant margin. The aged care sector is no different with Summerset (SUM) and Oceania (OCA) in particular showing steadily increasing interest. The strength of the NZ housing market is a clear medium term positive for the aged care sector, but so far this strength has not translated into higher unit pricing, our analysis suggests that this is about to change. During the last three months we have gathered over 550 data-points from more than 70 individual villages to track monthly "like-for-like" unit prices. While far from perfect given the heterogeneous nature of the data, our analysis points to some meaningful trends. Overall, our Montgomerie-Ibbotson (MI) aged care price index shows increases of almost +3% in February after modest rises in January. These, coupled with likely continued positive housing market news flow helps support our overall positive view of the sector and strong earnings growth expectations.

Introducing the MI aged care pricing index; up strongly in February driven by SUM

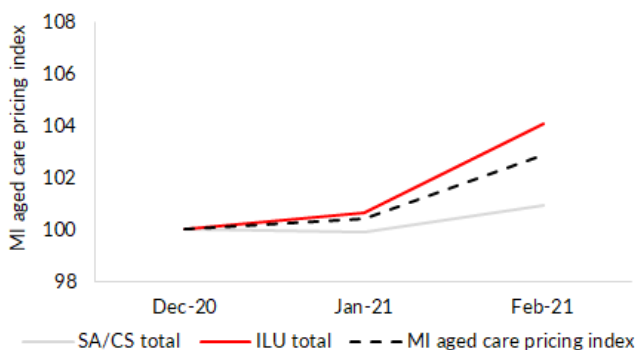
Each village is different and within villages there are large variations between Independent Living Units (ILUs). We have tracked over 200 unique product offerings from more than 70 different villages over three months. Not all products will be for sale each month, but with an average of 140+ "like for like" data points each month we have created a pricing index of ILUs and Serviced Apartments (SAs). Our index points to +0.5% and +2.9% increases in January and February respectively. The sharp increase in February was driven by ILUs, up almost 4% month on month. While we would expect increases following recent strong house price inflation, a +4% increase in one month is extraordinarily strong and compares to long run average price increases of c. 4-5% per year.

We have the most data for SUM, which also shows the largest increase in February. Its average of 63 "like for like" ILUs and SAs increased by over +5% in February, with ILUs increasing by over +7%. While Ryman (RYM) is showing more modest price increases, our data points to c. +1% increases in both January and February. We have substantially fewer data points for Arvida (ARV) and OCA so conclusions are harder to draw, but our data suggests increased pricing for ARV's ILUs and stable prices for OCA.

RYM is no longer the most searched listed retirement village operator

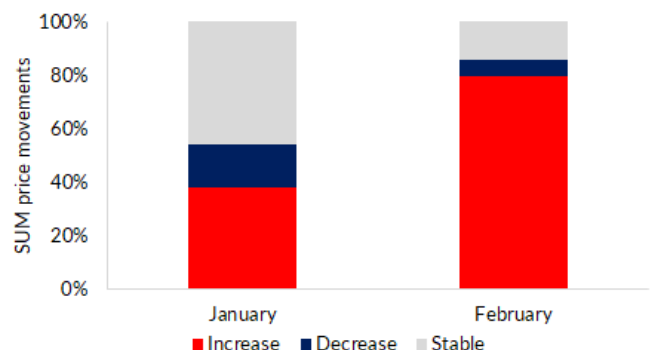
Google trends is a rough tool with a lot of noise, but we believe that over longer time periods it can provide some insight into relative performance of the aged care brands. Our analysis points to a steady increase in SUM's relative brand strength, with the most recent period indicating its popularity is on par with its significantly larger rival, RYM. OCA is also showing an increasing trend, while ARV and RYM have been largely stable.

Figure 1. Introducing the MI aged care pricing index



Source: Forsyth Barr analysis, Company websites, Trademe, Eldernet

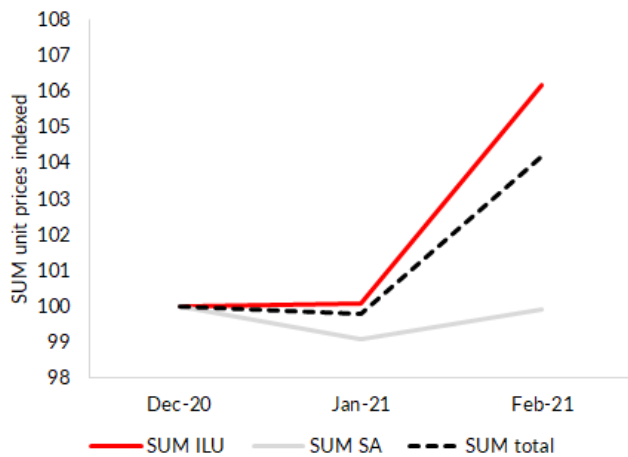
Figure 2. Strong price increases for SUM in February



Source: Forsyth Barr analysis, Company websites, Trademe, Eldernet

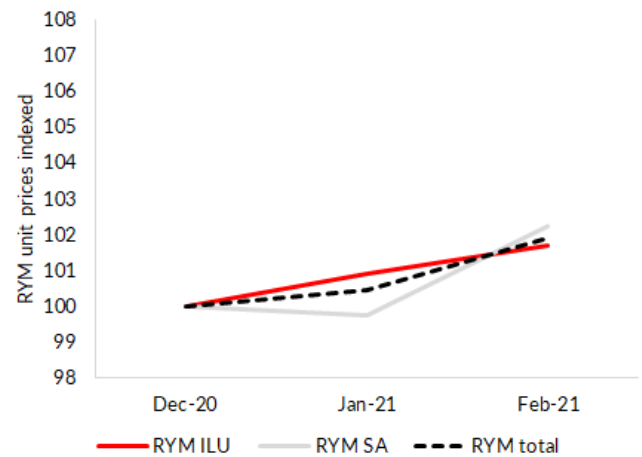
The MI aged care pricing index

Figure 3. SUM unit prices indexed



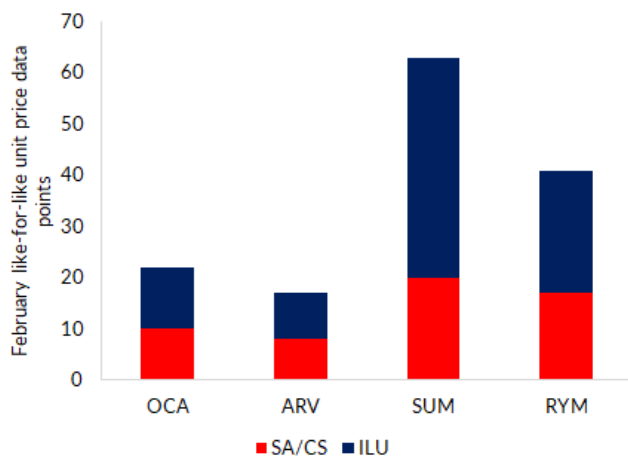
Source: Forsyth Barr analysis, Company websites, Trademe, Eldernet

Figure 4. RYM unit prices indexed



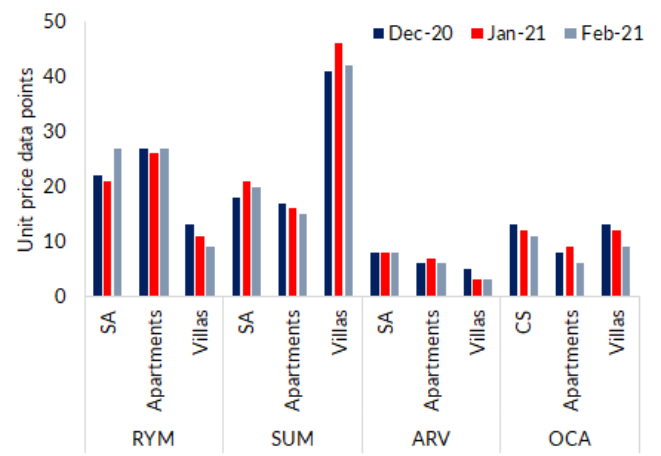
Source: Forsyth Barr analysis, Company websites, Trademe, Eldernet

Figure 5. High amount of like-for-like data points



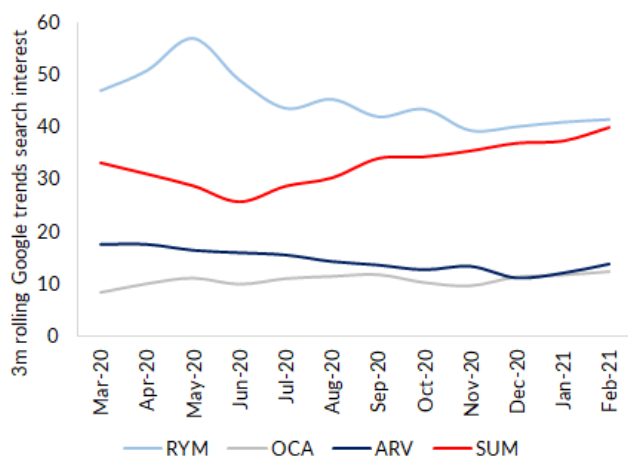
Source: Forsyth Barr analysis, Company websites, Trademe, Eldernet

Figure 6. Dataset accumulated to date



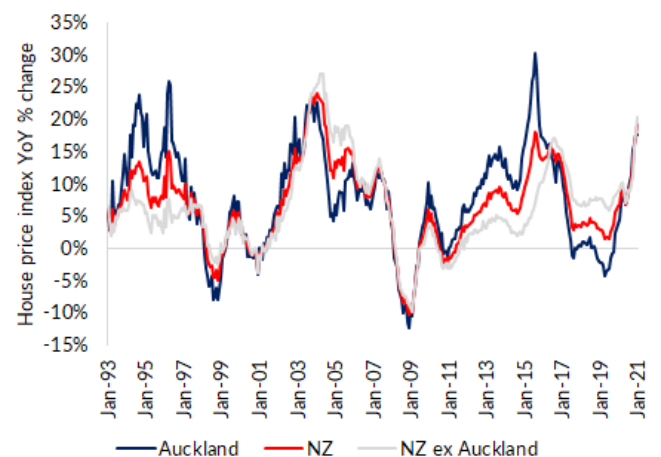
Source: Forsyth Barr analysis, Company websites, Trademe, Eldernet

Figure 7. Google search interest has been increasing for SUM



Source: Forsyth Barr analysis, Google trends

Figure 8. House price tailwind is strong



Source: Forsyth Barr analysis, Stats NZ

Analyst certification: The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

Analyst holdings: For information about analyst holdings in a particular financial product referred to in this publication, please refer to the most recent research report for that financial product.

Ratings distributions: As at 8 Mar 2021, Forsyth Barr's research ratings were distributed as follows:

OUTPERFORM	NEUTRAL	UNDERPERFORM
42.3%	40.4%	17.3%

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

Disclosure: Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

Investment banking engagements: For information about whether Forsyth Barr has within the past 12 months been engaged to provide investment banking services to an issuer that is the subject of this publication, please refer to the most recent research report for that issuer's financial products.

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

Disclaimer: This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.