NEW ZEALAND EQUITY RESEARCH
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Aged Care Sector
Changing the Economics of Care

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The care landscape in NZ is changing. Three of the four listed aged care operators have pivoted new care development towards care suites (or similar), sold under an Occupational Rights Agreement (ORA). The reason for this pivot is likely to be a combination of poor profitability within standard care, increased expectations with regards to standards from care residents and a wish to differentiate offerings. Oceania Healthcare (OCA) has led the way but Arvida (ARV) is a fast follower. Summerset (SUM) is still very much in its infancy and will deliver its premium care offering through a combination of care suites and memory care (dementia). The shift to care suites sold under an ORA carries with it three main implications; (1) it increases the cash recovery of new build, (2) it improves the profitability of care, but (3) it reduces the cash conversion and predictability of earnings. With this note we upgrade ARV to OUTPERFORM, reiterate our OUTPERFORM rating on OCA, and keep NEUTRAL ratings on SUM and Ryman Healthcare (RYM).

What has happened?

The earnings and portfolio composition within the aged care sector has undergone significant change over the past decade, with retirement village driven earnings starting to dominate over traditional care related earnings. Care related earnings as a percentage of total earnings have declined as government funding hasn't been able to offset the impacts of increased cost pressures across the aged care sector. While we acknowledge the complementary nature of the two earnings streams, we find ourselves at an interesting juncture with innovation in the form of care suites becoming a common place solution to turning around care profitability.

Why is it important? Care ORAs improve the economics of care and development; but it is not a "free lunch"

Cash recovery of new development has deteriorated substantially across the aged care sector over the last 5–10 years; from over 90% to around 60–70%. We discussed this dynamic in detail in our report *"Different Times Call for Different Measures"*, published October 15, 2020. The low cash recovery has driven up net debt across the sector over the last few years. The introduction of care ORAs has the potential to restore the aged care operators ability to recycle cash faster. However, with it comes higher volatility in business cash flow and lower cash conversion of annuity earnings.

Aged care tour confirms that recent strong demand is continuing

We recently visited 11 villages on our Kaimai aged care tour. We walk away with three main impressions that support our overall positive view of the sector and ARV upgrade; (1) demand for retirement villages remains very strong across the board but in particular for high end villages, (2) OCA and ARV are targeting near 100% care suite ORA uptake, above our prior estimates of ~80%, and demand appears strong, and (3) versus our expectations, construction activity is running relatively smoothly. There have been some cost increases but no severe materials or labour shortages were noted.

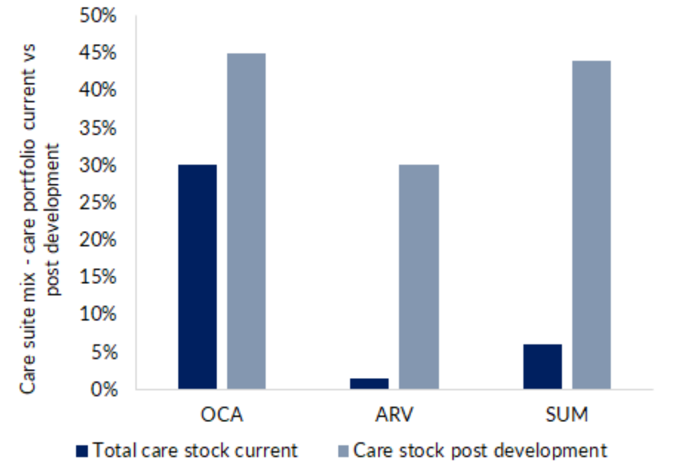
Figure 1. Summary of sector ratings and valuation

Company	Ticker	Current price	Target price	12m fwd PE	12m fwd EV/Annuity EBITDA	Rating
Oceania Healthcare	OCA	1.32	1.80	13.4	20.0	OUTPERFORM
Arvida	ARV	1.70	2.15	13.9	21.4	OUTPERFORM
Ryman Healthcare	RYM	15.00	14.10	24.6	44.7	NEUTRAL
Summerset	SUM	12.05	13.25	18.5	35.2	NEUTRAL

Source: Forsyth Barr analysis

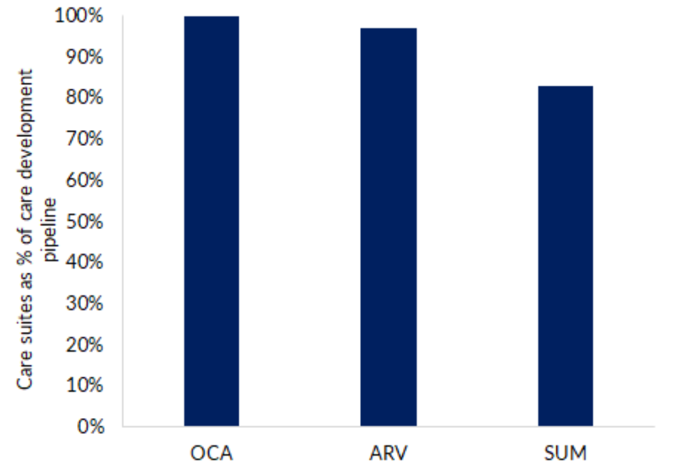
Our thesis in pictures

Figure 2. ~40% of care portfolio will be care suites when OCA, ARV and SUM complete construction...



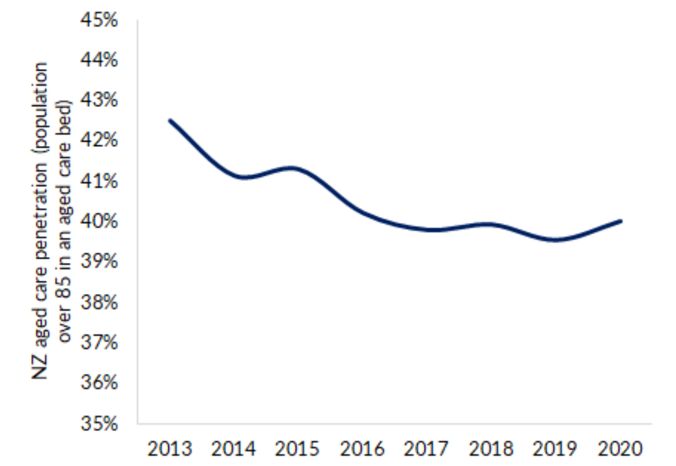
Source: Forsyth Barr analysis, Company reports

Figure 3. ...as nearly all care development going forward will be focussed on care suites or equivalent...



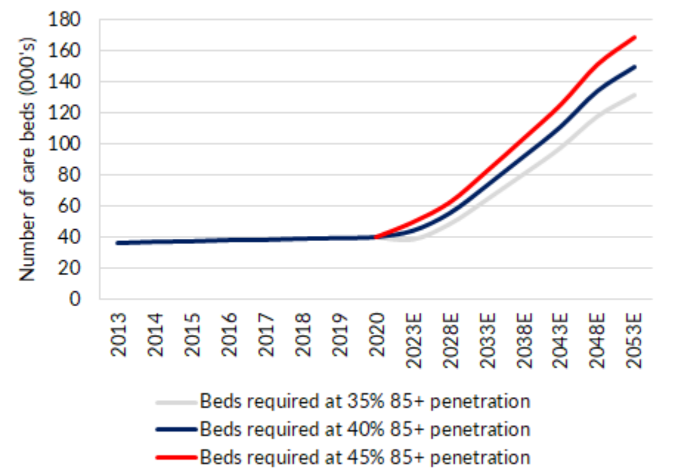
Source: Forsyth Barr analysis, Company reports

Figure 4. ...penetration for care has declined...



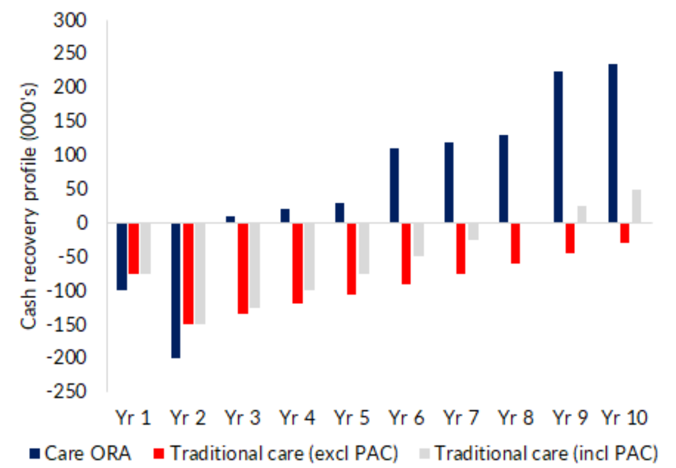
Source: Forsyth Barr analysis. Stats NZ, NZACA

Figure 5. ...and significant additions are needed to keep it stable...



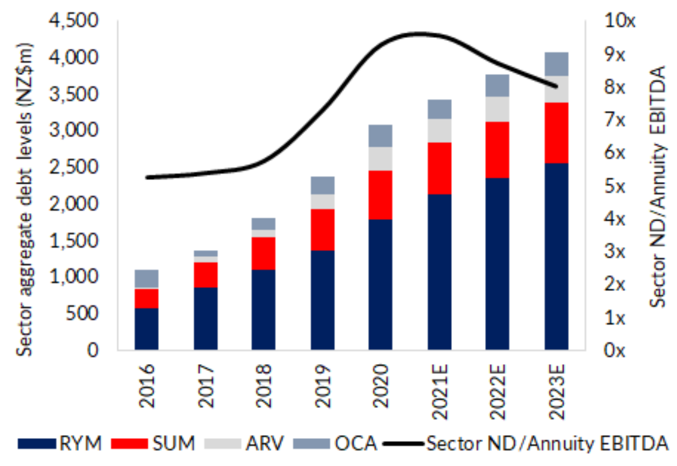
Source: Forsyth Barr analysis, Stats NZ, NZACA

Figure 6. ...the cash profile of care ORAs is very different...



Source: Forsyth Barr analysis

Figure 7. ...which we estimate will improve gearing levels



Source: Forsyth Barr analysis, Company reports

Key take-outs from our recent aged care tour

We recently visited 11 villages in the prospering retirement area of the North Island's golden triangle. Two villages in Hamilton, one in Cambridge and eight in Tauranga. The village mix was dominated by the listed operators (ARV; 3, SUM; 1, RYM; 2 and OCA; 2), however, we were also able to gain insights into the private market with three villages owned by private operators.

Key takeaways from our aged care tour

- **Construction issues evident but far less significant than expected:** Given the recent newsflow surrounding lead times and supply shortages for numerous building products we assumed this may start to impact build rates. However, while the operators acknowledged pressures through increasing construction costs and lead times, the impact was far less material than expected. There was nothing to suggest that recent pressures will have an impact on near-term build rates.
- **Very strong demand supported by housing market; little to suggest it will slow near-term:** Demand anecdotes, that there has been little slowdown to sales activity following the pent-up demand surge post lockdowns, were consistent across all operators. Some operators are now beginning to accelerate development plans to keep up with demand, and the strong housing market will continue to aid sales activity.
- **Almost all premium care beds are being sold under an ORA:** Given the relative infancy of the care ORA offering, the resident demand profile versus a care bed with a premium accommodation charge (PAC) is still relatively untested. However, amongst the villages we visited it was clear that all (or nearly all) care beds that can be sold under an ORA are. Our previous assumption was that ~80% of premium care beds would be sold under an ORA but this now appears conservative.
- **Limited resident resistance to "double-dipping":** A clear and viable risk for the care ORA offering is either resident or government push back to aged care operators receiving deferred management fee (DMF) proceeds from residents who purchase the right to occupy a care unit after previously occupying an ILU within the same village. While this could have an impact long-term there was little to suggest that it is an issue for residents or will impact demand. Although, we did note a number of references from sales managers to increased conversations about DMF amongst family members for those moving to a care suite.
- **Aged care staffing shortages are an issue:** Aged care operations have been under pressure for some time, driven by a multitude of issues, one of which has been a lack of staff. Our tour suggests there has been little change to this trend and if anything staffing issues have got worse, accentuated by a lack of immigrants. Some operators are now finding it increasingly difficult to attract New Zealander's given the lack of government funding relative to other areas of the healthcare system.
- **Emphasising the importance of the continuum of care:** A consistent message across all operators was the importance of the full care continuum, it appears resident demand and desire for integrated care has lifted materially post lockdowns. While this isn't a new trend, it emphasises the importance of a strong care offering despite the declining profitability.
- **Whitepaper risk perceived as low:** Newsflow around the Commission for Financial Capability (CFFC) draft whitepaper released in December has yet to abate, if anything it has increased over the past month. Numerous suggestions have been made that the retirement village model in New Zealand requires dramatic change. As consistent with other anecdotes across the industry, this suggestion was quickly abolished by all operators we visited. While it was acknowledged there is the need to tighten regulation around exit fees and the timing of payments, the messaging was very clear that the potential introduction of capital gains would undermine a sector that has very high resident satisfaction levels and continues to provide high quality care.
- **Pent up house price inflation still to come:** Our recent analysis suggests retirement village unit pricing has started the year strongly, driven predominately by SUM (see our report titled "*Montgomerie-Ibbotson Aged Care Pricing Index*", published 10 March 2021 for more detail). Given the material shift in New Zealand house prices over the past year (c. +20%), the retirement village operators have plenty of room to increase prices further. Numerous anecdotes on our tour suggested that while prices have increased modestly in recent months there are more price rises on the horizon as some operators opted to delay pricing decisions in light of continued COVID-19 uncertainty through the second half of CY20.

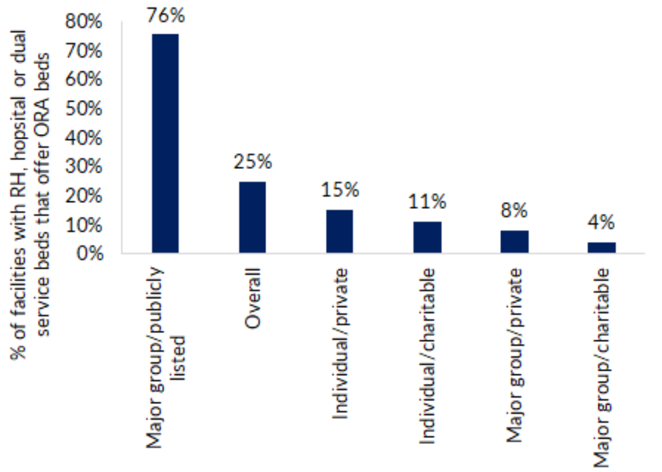
NZ's care landscape is changing

The traditional (and still dominant) model of charging for care is through a base fee with an additional premium accommodation charge (PAC) for premium offerings. 15 years ago only 20% of facilities had beds with a PAC, today over 90% of facilities do. This development is likely a function of two trends. Firstly, the resident demand for premium care has increased, this is particularly so from residents living in a retirement village (when you are living in an NZ$1m villa you are potentially not content with moving to a small room with a shared bathroom). Secondly, the cost of delivering care has increased faster than government funding; the aged care operators have responded by finding other sources of income to cover cost of delivering care; PACs have, until recently been the preferred solution.

PACs reaching saturation; care ORAs dominate new development

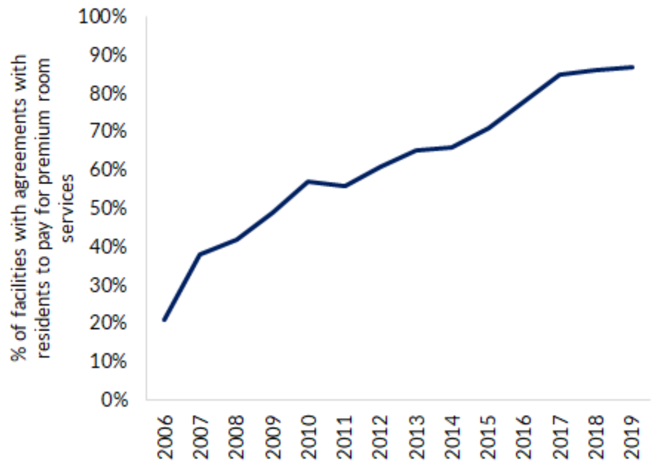
Of all care beds over half now have a PAC, and for the listed operators most facilities offer premium beds. To avoid regulatory scrutiny and considering that a meaningful proportion of, in particular RYM's, care beds are occupied by people from outside of the village, many of which can't afford a PAC, we believe there is not much room for further growth in applying PACs.

Figure 8. Facilities that offer ORA beds



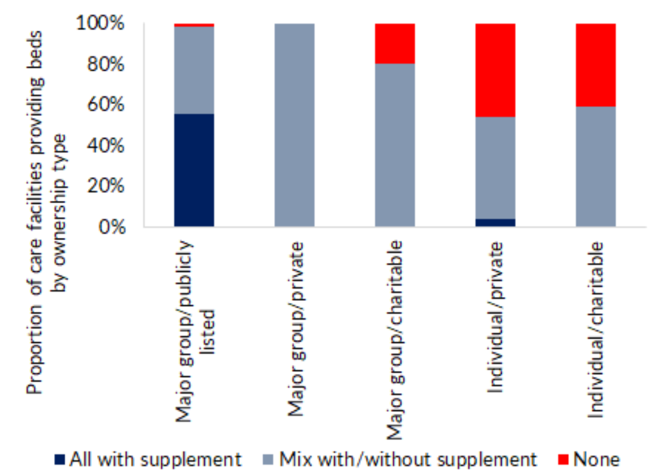
Source: Forsyth Barr analysis, NZACA

Figure 9. Facilities that have premium rates applied



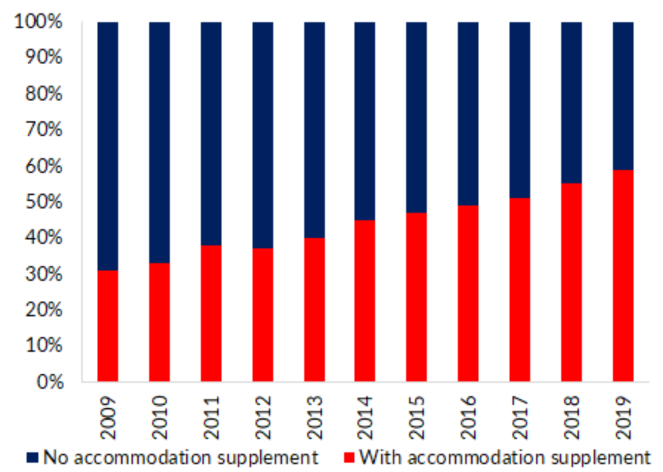
Source: Forsyth Barr analysis, NZACA

Figure 10. Listed operators dominating the premium care landscape



Source: Forsyth Barr analysis, NZACA

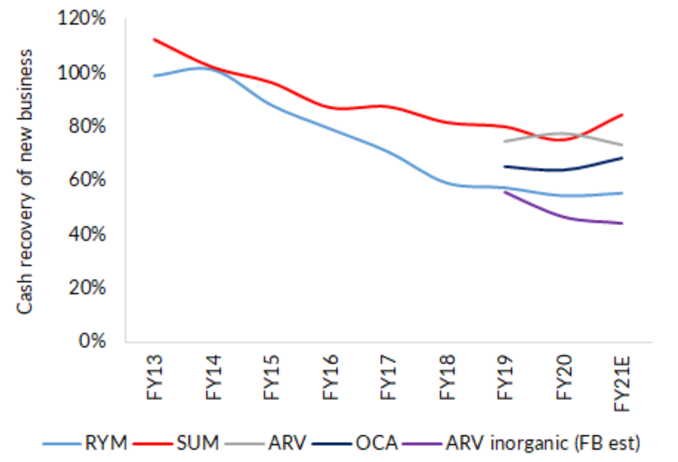
Figure 11. Mix of rooms with accommodation supplement



Source: Forsyth Barr analysis, NZACA

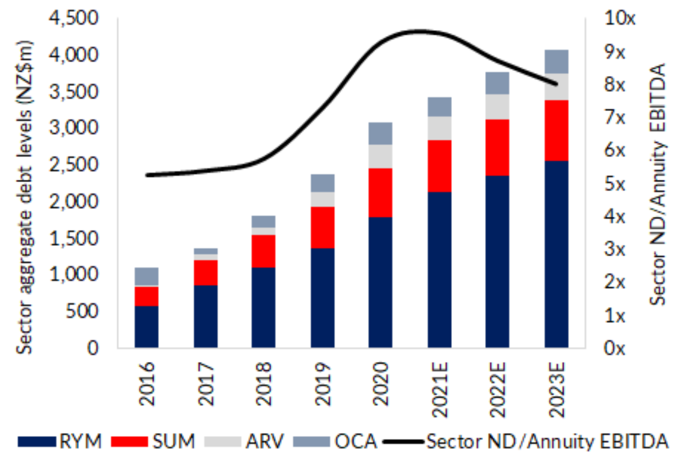
Recently three of the four listed operators have introduced ORAs on care suites, a higher end care bed sold with an ORA. RYM has introduced Refundable Accommodation Deposits (RADs), similar to an ORA but without a DMF applied to its existing traditional beds. We believe this development is primarily a reaction to the deteriorating cash recovery of capex across the industry. While PACs have helped ease the pressure on margins from rising costs, they have done little to improve the ability to recycle cash. With higher capex per bed and longer lead times as villages are growing in size and in particular height, cash recovery of capex has deteriorated meaningfully across the listed universe.

Figure 12. Historic sector cash recovery of capex



Source: Forsyth Barr analysis, Company reports

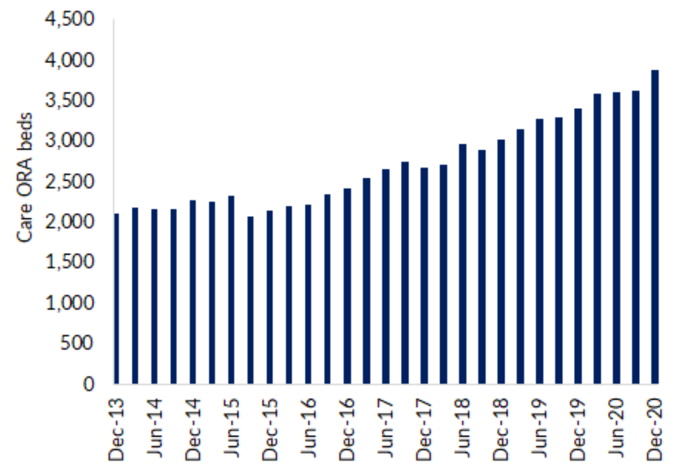
Figure 13. Rising debt levels across the sector



Source: Forsyth Barr analysis, Company reports

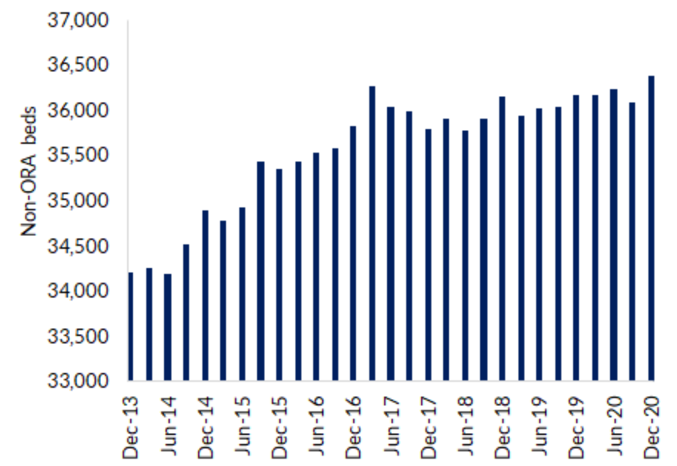
We believe that the declining cash recovery and related rising debt has forced a re-think of how to charge for premium care by the aged care operators. We estimate care ORAs will have a modest positive impact on care earnings relative to charging through PACs, but the impact on cash recovery of capex, and therefore return on invested capital, has the potential to be larger.

Figure 14. Nationwide care ORA beds starting to increase...



Source: Forsyth Barr analysis, NZACA

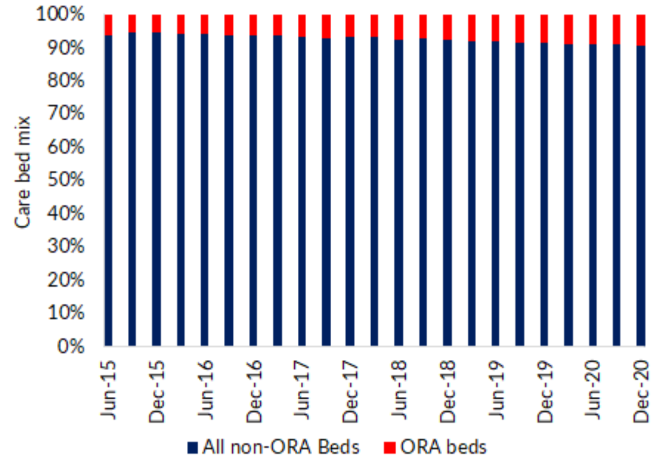
Figure 15. ...while non-ORA care beds have plateaued



Source: Forsyth Barr analysis, NZACA

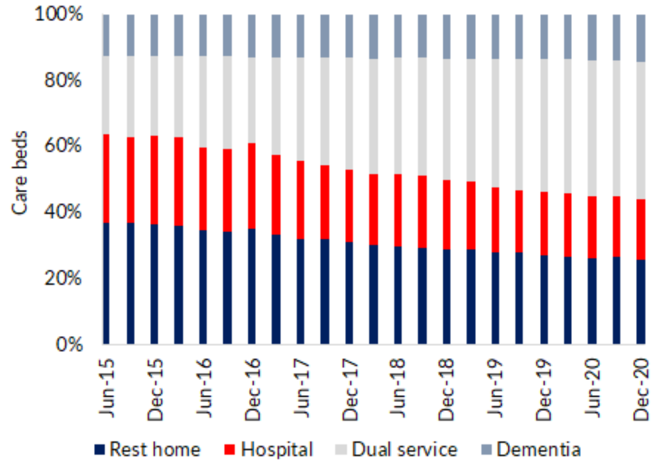
Care beds with an ORA is not new, ten years ago NZ already had c. 2,000 care beds under ORA. However, after a long period of limited growth, the aged care sector has added over 1,000 care ORA beds, meanwhile traditional care beds have seen almost no net additions, both of which appear to be predominately driven by the listed operators.

Figure 16. Nationwide mix of care beds



Source: Forsyth Barr analysis, NZACA

Figure 17. Nationwide mix of care beds



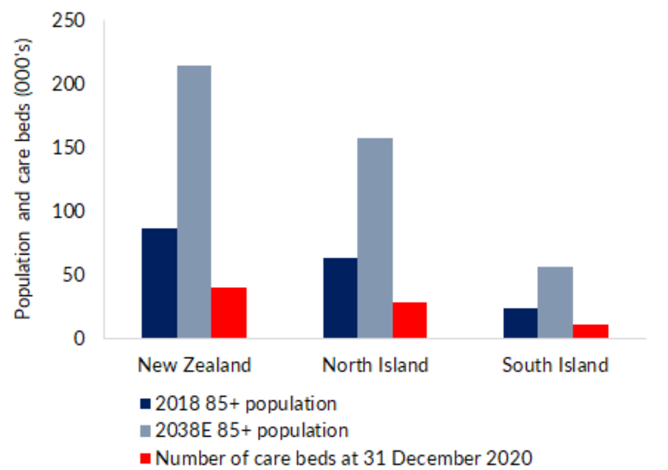
Source: Forsyth Barr analysis, NZACA

Another significant shift in the market is the steady increase of dual service beds, "swing beds". Today, swing beds make up over 40% of total care beds. Swing beds are attractive for both residents (they do not have to move if they need hospital level care) and for the operators as they have increased flexibility. Our understanding is that care suites are almost exclusively built as swing beds, and can as such be sold as a proper "last move". Instead of moving from an ILU to a serviced apartment, then into care and potentially a further move into a hospital level bed, residents just make one move; from an ILU to a care suite.

Penetration of care beds declining; demand likely to remain high

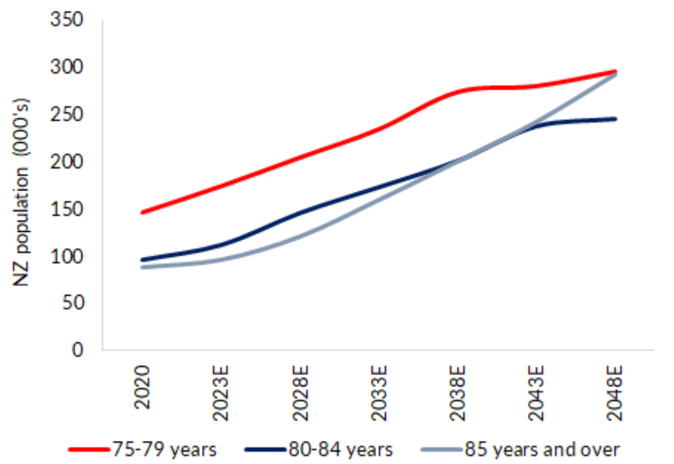
Contrary to the case for ILUs, penetration of care beds is declining (and looks set to continue) as new beds have not kept up with the growing elderly population. Today, care penetration for over 85 year olds sits at c. 40%. This group is forecast to double over the next 15 years, suggesting, all else equal, that c. 2,500 care beds are needed annually. This compares to the c. 500 per annum that have been added in recent years and the c. 500 care beds (including care suites) that we forecast will be added by the four listed operators.

Figure 18. New Zealand population projections versus care beds



Source: Forsyth Barr analysis, NZACA, Stats NZ

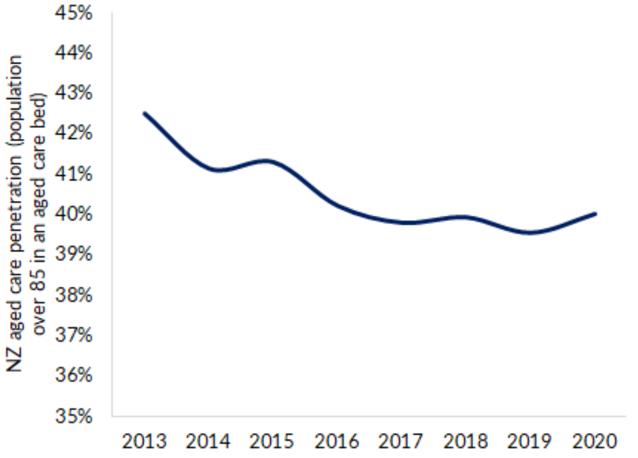
Figure 19. Need for aged care is only heading one way



Source: Forsyth Barr analysis, Stats NZ

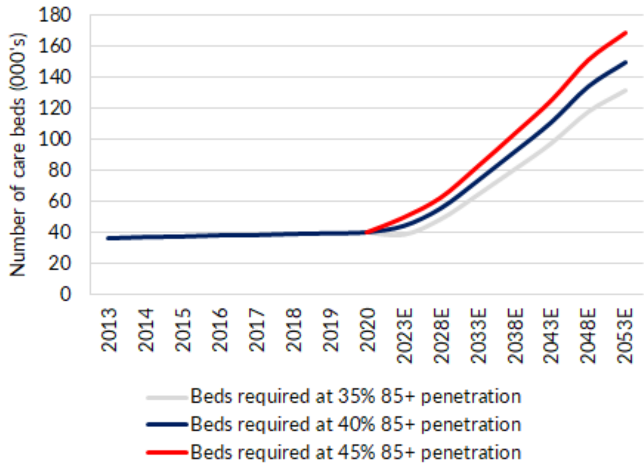
Towards the end of the current decade we see a significant shortage relative to both current and projected 85+ year old populations. While retirement village living penetration (those over 75) has been increasing slowly to now sit at ~14%, we believe the high acuity nature of care allows it to derive similar earnings growth (albeit from a lower base) from the ageing population thematic. It also acts as a more defensive long term earnings stream to combat the potential for changing consumer preferences and lower house prices, where retirement village earnings are naturally more volatile. Specifically, we believe it to be highly unlikely that the demand for care beds (including care suites) will experience a "demand cliff" as the market gets saturated and supply continues to come on-line.

Figure 20. Aged care penetration (85 years+)



Source: Forsyth Barr analysis, NZACA, Stats NZ

Figure 21. Aged care beds; forecasts required for stable penetration



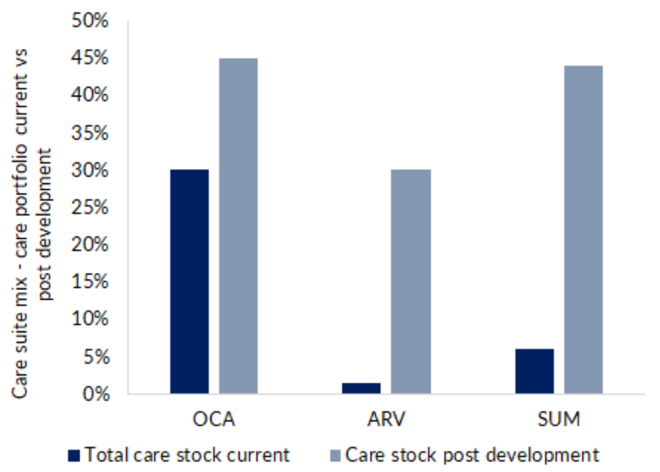
Source: Forsyth Barr analysis, Stats NZ, NZACA

Care build pipeline dominated by care suites; OCA most advanced

The four listed operators are at at varying stages of pivoting from traditional care beds to a care suite model and have each applied a slightly different model. Current status and future development plans between the listed operators varies;

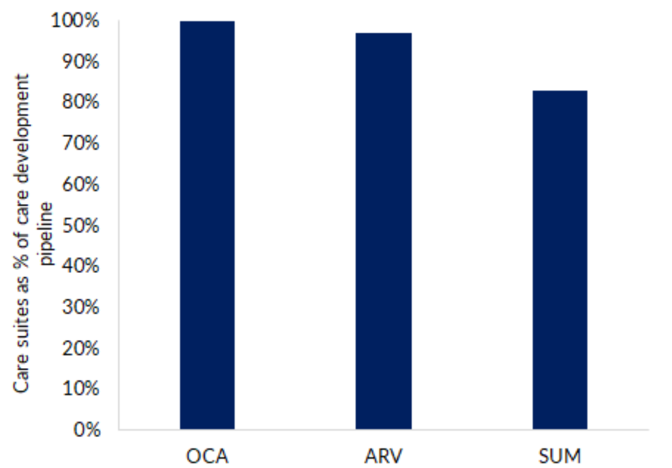
- **OCA:** The sector pioneer — OCA undertook a refreshed strategy in 2017 to lead the sector and transform its older care villages to premium care suites through a combination of brownfield expansion and conversion. OCA is only part way through its development, with care suites making up ~50% of its development pipeline, the intention is that all of these will be sold under an occupational rights agreement (ORA) rather than having an associated PAC. At completion of its current pipeline only ~17% of its portfolio will be standard care beds versus ~46% in FY17 (and ~32% today). OCA charges a 30% DMF on its care suites over a three year period — there is no reduction in DMF even when transferring within a village.
- **SUM:** Only in its infancy and is pursuing two routes; (1) memory care apartments (364 units) and (2) care suites (499 units). Memory care is modern apartments for dementia patients catering up to rest home level care secured under an ORA. Currently only three of SUM's villages offer memory care with the majority sold under an ORA. SUM is yet to disclose plans on PAC versus ORA for its care suites but we assume the intention will be for most to be sold under an ORA. SUM charges a 25% DMF over a two year period (accounted for over three), if moving within a village the DMF is halved to 12.5%.
- **ARV:** Similar to SUM, ARV is only beginning its care suite journey with its premium Aria Bay and Copper Crest villages recently completed. ARV has a healthy development pipeline of 618 care suites, making up 40% of its total development pipeline. Insights from our tour suggests demand to date has been strong and ARV plans on selling the majority of its care suites under an ORA. ARV charges a 30% DMF over a two year period (accounted for over three), if moving within a village the DMF is halved to 15%.
- **RYM:** RYM has a significant care offering already at its disposal but to date has opted against the care ORA route. Despite this, at its 1H21 result in November RYM announced the move into refundable accommodation deposits (RADs) whereby a resident pays a one-off deposit at 1000 times the weekly fee associated on the care bed in place of a normal accommodation premium. We understand the RAD product has only recently been rolled out nationwide but believe the product will be attractive to residents and expect it to alleviate some balance sheet pressure. While it does come at a cost of lower care earnings and business cash flow, we believe RYM has prioritised wisely; focussing on reducing bank debt to avoid the risk of having to slow construction activity.

Figure 22. Care suite stock mix relative to care portfolio — now vs future



Source: Forsyth Barr analysis, Company reports

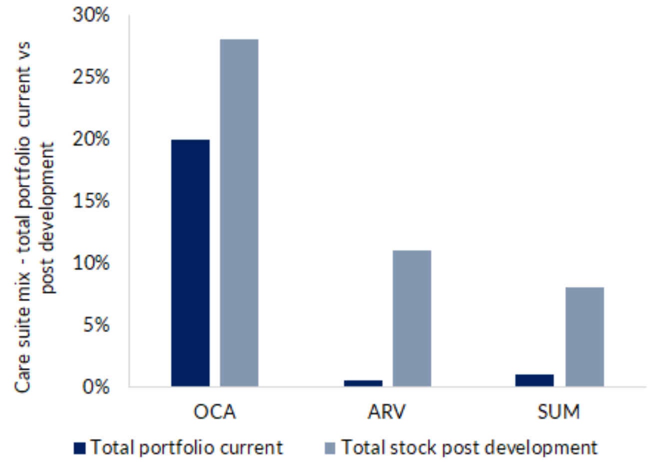
Figure 23. Care suite development pipeline as % of total care



Source: Forsyth Barr analysis, Company reports

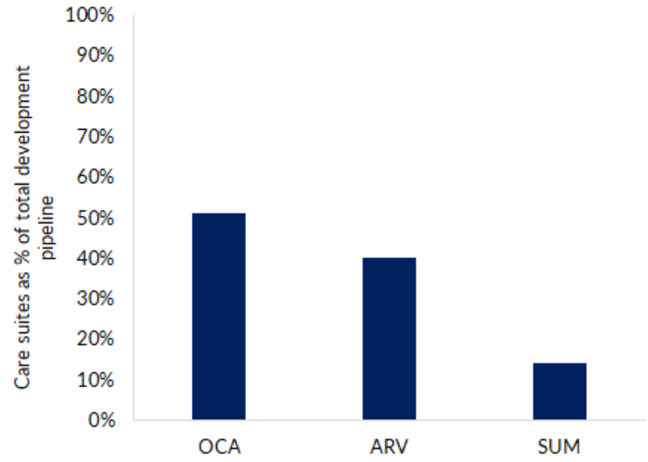
OCA is furthest along the path in transforming its care offering from standard/premium rooms to care suites, the vast majority with an ORA attached to it. Already today c. 30% of OCA's care beds are categorised as care suites. ARV and SUM are still early in the process, with c. 2% and 6% of total care beds currently categorised as care suites (or equivalent). Importantly, looking at the current development pipeline, almost 100% of new care will be care suites with the intention of selling them under an ORA. We estimate that by the time OCA, ARV and SUM have completed current pipelines (5–10 years) they will all have a similar mix, with approximately half of care beds classified as care suites, with the vast majority of those sold under an ORA.

Figure 24. Care suite stock mix relative to total portfolio — now vs future



Source: Forsyth Barr analysis, Company reports

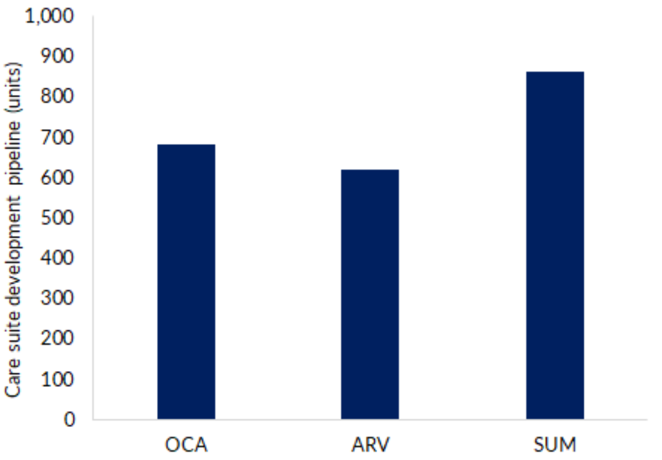
Figure 25. Care suite development pipeline as % of total portfolio



Source: Forsyth Barr analysis, Company reports

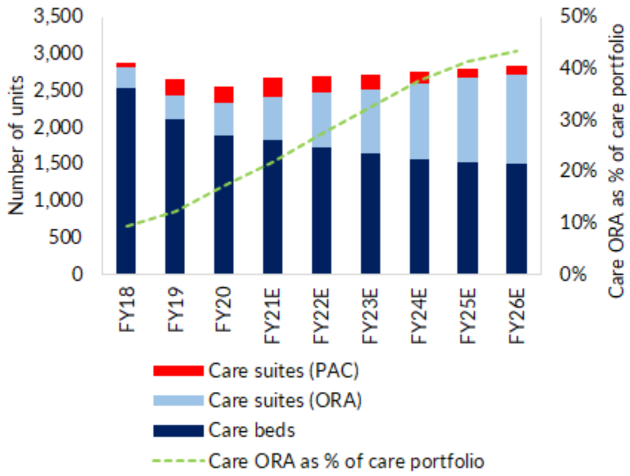
The impact of this transformation from PACs and standard beds to care suites sold under an ORA will be much more significant for OCA than for ARV and SUM due to the larger weighting of care in the overall portfolio. We estimate that care suites will make up approximately one quarter of OCA's total portfolio in five years time while it will be less than 10% for ARV and SUM.

Figure 26. Absolute care suite development pipeline



Source: Forsyth Barr analysis, Company reports

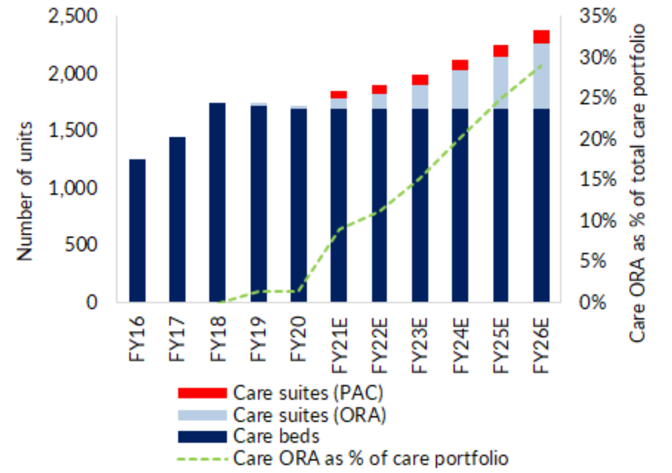
Figure 27. OCA; portfolio transformation well underway



Source: Forsyth Barr analysis, Company reports

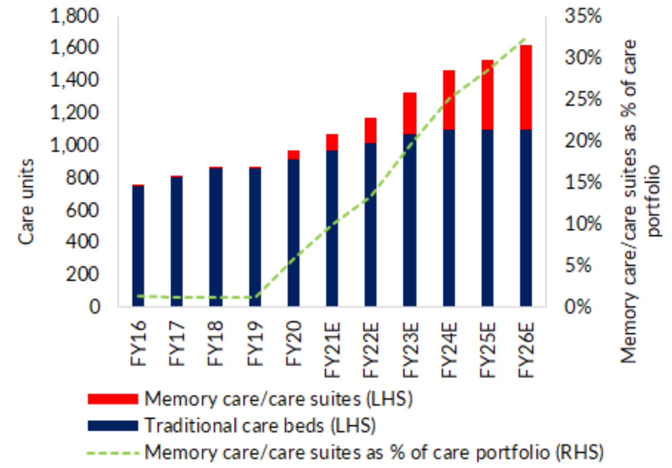
In absolute terms, the three listed companies, OCA, ARV and SUM have over 2,000 care suites in the pipeline, equivalent to over 60% of the entire existing stock. At this stage it is difficult to assess with any certainty if there will be enough demand, however, we believe the odds are that it will be. Firstly, care suites even after build out will only make up c. 15% of all care beds. Secondly and more importantly, OCA, SUM and ARV will have over 15,000 ILUs between them. The majority of care suites will likely be sold to village residents, who will have enough money coming from the repayment of the initial ORA to cover the cost of a care suite. Finally, as discussed above, demand for care overall is likely to outstrip supply.

Figure 28. ARV; portfolio transformation just getting started



Source: Forsyth Barr analysis, Company reports

Figure 29. SUM; portfolio transformation just getting started



Source: Forsyth Barr analysis, Company reports

Care suites are spreading from higher priced Auckland to the regions

New Zealand's premium care offering across the listed operators is currently dominated by OCA, with a strong foothold in Auckland and regionally. ARV and SUM have significantly less exposure currently, but with strong development pipelines focussed primarily outside of Auckland the geographic mix is set to change. While the demand profile is still largely untested our best indicator is OCA, who to date has been successful, particularly through its higher priced offering in Auckland.

Figure 30. Care suites among the listed operators is currently dominated by OCA...

Source: Forsyth Barr analysis, Company reports. NB: blue represents OCA, yellow ARV and red SUM

Figure 31. ...but others are starting to catch up, with ARV and SUM having meaningful development pipelines

Source: Forsyth Barr analysis, Company reports. NB: blue represents OCA, yellow ARV and red SUM

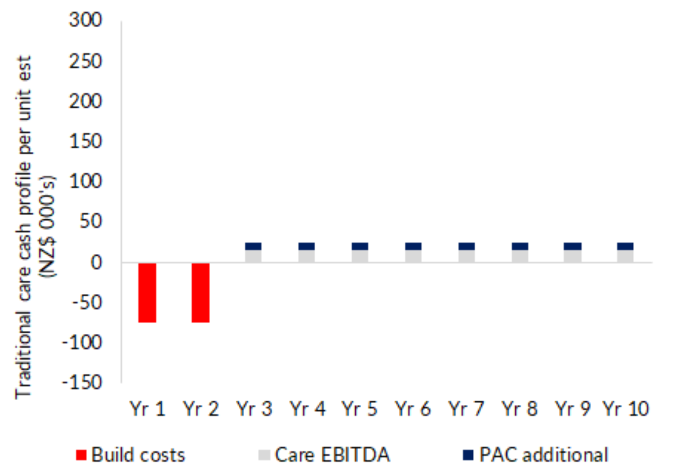
Cash recovery impact meaningful, annuity earnings impact a small positive

While we acknowledge the importance of care as part of the village composition and the role it plays in the continuum of care model, care earnings have declined over the last decade as government funded earnings haven't been able to offset rising care costs (primarily wages). However, through the premium care suite offering we believe there is a significant opportunity for the listed operators to switch the narrative and use demand driven need for high acuity care to drive meaningful annuity earnings streams and improve cash recovery of capex.

Cash; improvement in cash recovery but less predictability in cash conversion

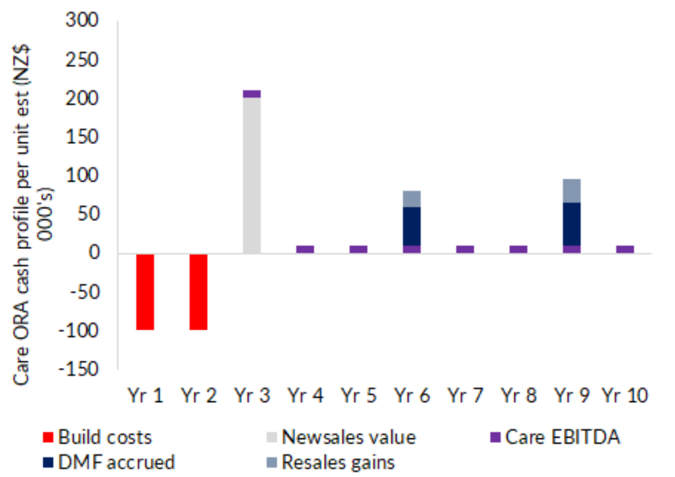
One drawback of the ORA model is poor cash conversion from ongoing operations as DMF is accrued and unpredictable re-sale gains are only realised on exit; as a consequence, cash generation from an ILU is lumpy and long dated, with tenures often up to a decade. We estimate cash conversion within the ILU proportion of annuity EBITDA (DMF and re-sale gain) to be around 50%, currently, increasing to around 70% in steady state. In contrast, cash conversion is high (we estimate around 100%) for traditional care earnings and annuity characteristics are also high. We expect care suites to be something in-between; cash conversion will not be as high as for traditional care, however, due to the average tenure for care suites being short, only 2–3 years, and refurbishment needs likely lower at exit, we foresee on-going cash conversion of around 80–90%.

Figure 32. Traditional care cash profile



Source: Forsyth Barr analysis

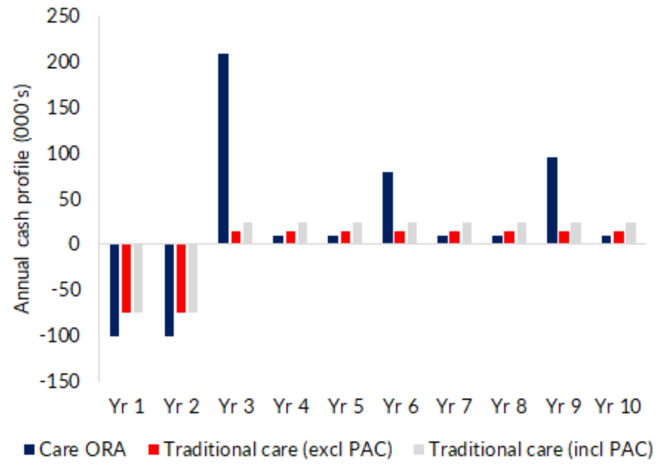
Figure 33. Care ORA cash profile



Source: Forsyth Barr analysis

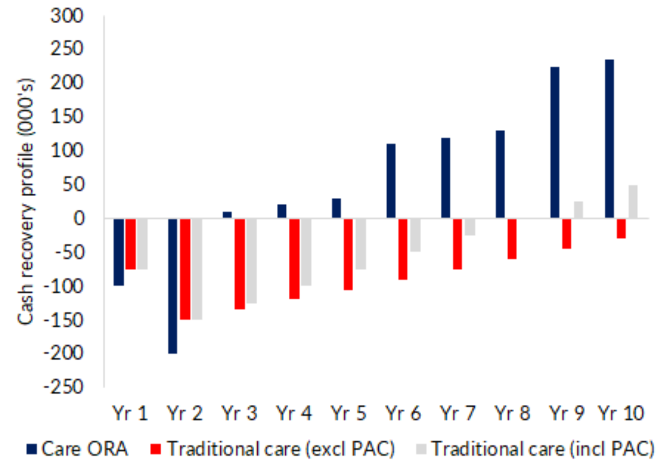
Figures 32 and 33 (above) simplistically outline on a per unit basis the cash conversion dichotomy between traditional care and care beds sold under an ORA. Traditional care provides stable/consistent earnings streams in the form of government funded care fees (with the potential for premium charges on top of this) that have high conversion, albeit it comes at the expense of lower cash recovery of capex. On the contrary, care beds sold under an ORA have more variable cash flows with the stable/consistent earnings streams akin to traditional care replaced by deferred management fees that are accrued.

Figure 34. Cash movements more variable under an ORA...



Source: Forsyth Barr analysis, Company reports

Figure 35. ...but cash recovery improves

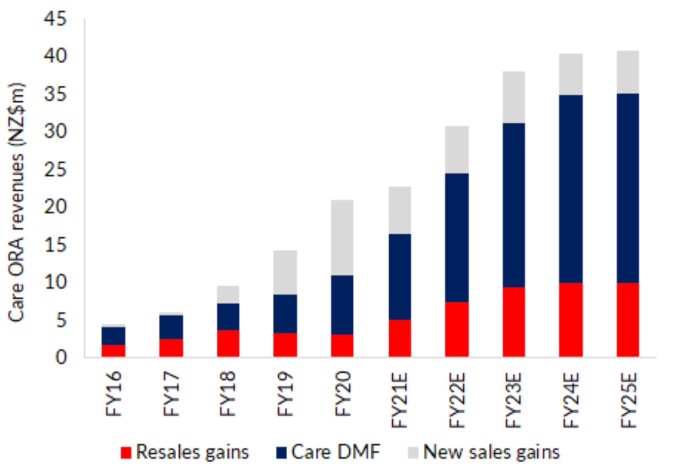


Source: Forsyth Barr analysis, Company reports

Care ORA will become a meaningful part of annuity earnings over the coming five years for ARV and SUM, and already is for OCA

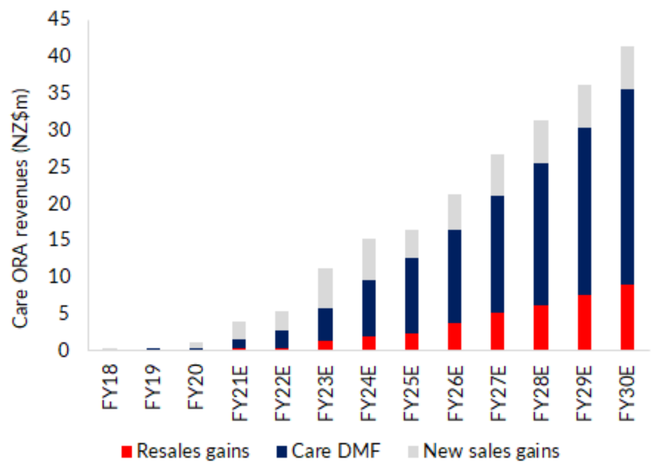
We estimate that DMF and re-sales gains from care suites will start to contribute meaningfully to ARV's and SUM's earnings within five years. For OCA it is already the dominant contributor, primarily as a consequence of depressed earnings throughout its traditional care and ILU offering following its three year restructuring of its portfolio.

Figure 36. OCA care ORA revenues



Source: Forsyth Barr analysis

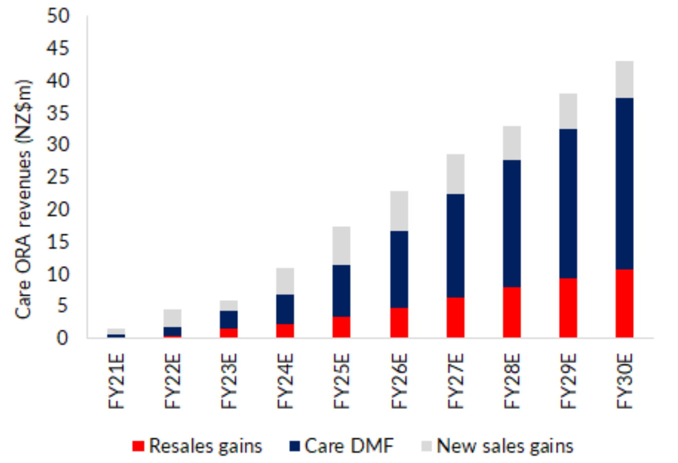
Figure 37. SUM care ORA revenues



Source: Forsyth Barr analysis, Company reports

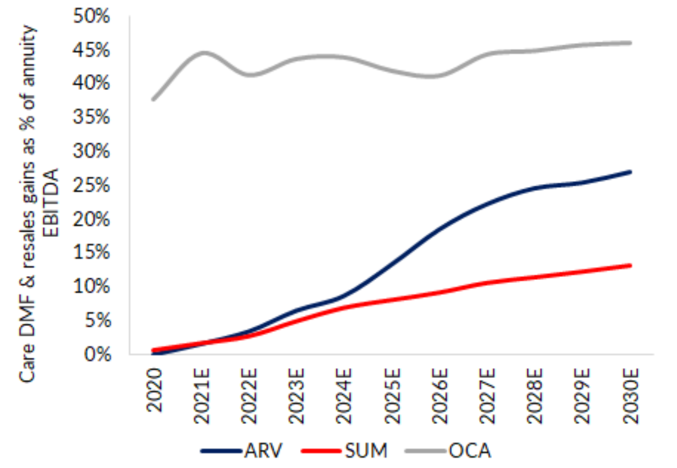
For OCA we have not modelled greenfield projects post completion of its current pipeline (predominantly brownfield developments), something we estimate will be completed within the next five or so years. However, the recent acquisition of the Franklin site suggests that OCA is gearing up to start to deliver a more continuous flow of greenfield development.

Figure 38. ARV care ORA revenues



Source: Forsyth Barr analysis, Company reports

Figure 39. Care DMF & resales gains as % of annuity EBITDA

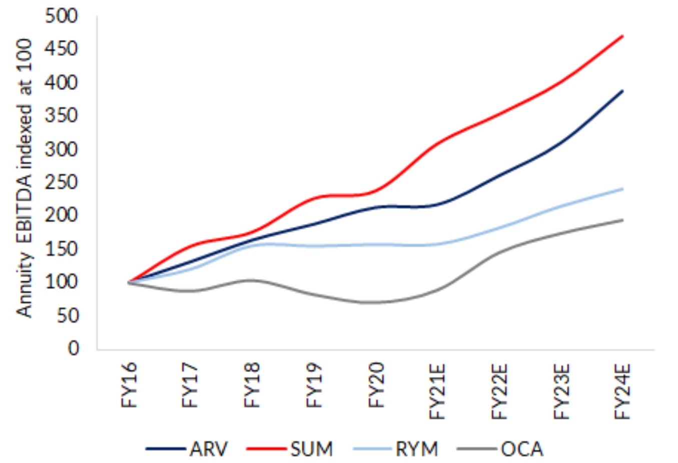


Source: Forsyth Barr analysis, Company reports

Valuation; mismatch between organic growth outlook and valuation

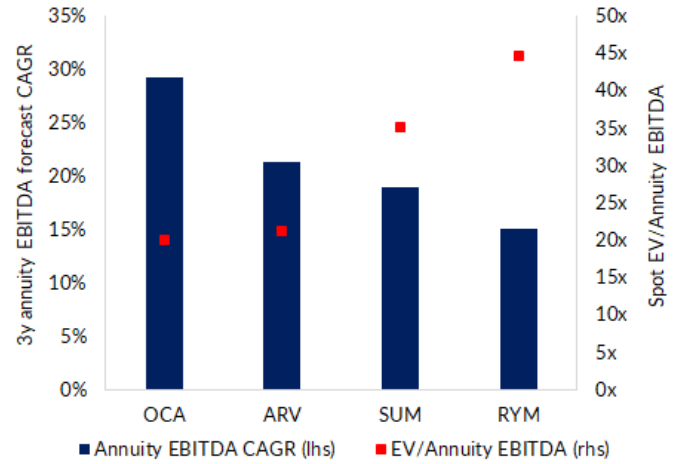
Our preference is for the smaller two operators, OCA and ARV. We believe both will deliver the fastest organic growth in the sector yet are valued at an almost 50% discount to RYM and SUM. We acknowledge they should be valued at a discount due to their unproven track record of consistent greenfield delivery. However, over the medium term, we see the potential for both to close the valuation gap as investors grow comfortable with their ability to grow earnings organically.

Figure 40. Annuity EBITDA indexed



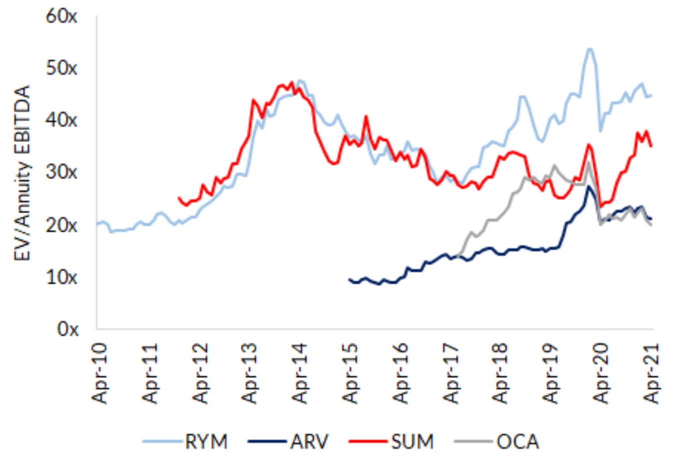
Source: Forsyth Barr analysis, Company reports

Figure 41. Annuity EBITDA growth vs valuation



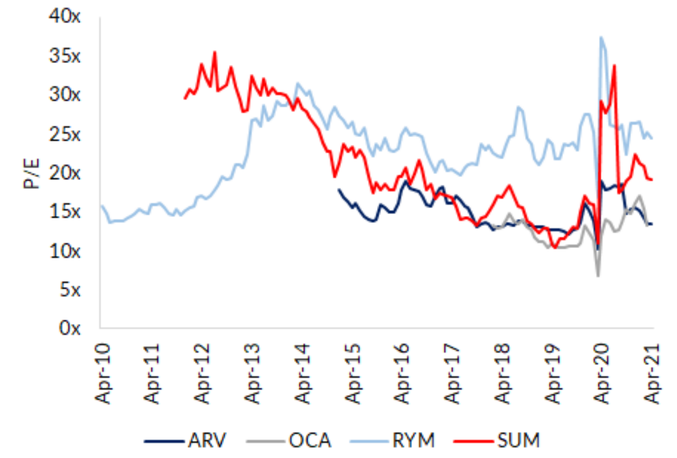
Source: Forsyth Barr analysis, Company reports

Figure 42. Sector EV/Annuity EBITDA



Source: Forsyth Barr analysis

Figure 43. Sector P/E



Source: Forsyth Barr analysis

Earnings and valuation changes

Ryman Healthcare

What's changed?

- **Earnings:** We make material downgrades to FY21 forecasts (underlying profit down -6% and annuity EBITDA down -4%) reflecting the repayment of RYM's NZ$14.2m wage subsidy and several other minor changes, minimal changes are made thereafter.
- **Target price:** Increased to NZ$14.10 from NZ$13.75

Figure 44. RYM forecast earnings changes (NZ$m)

	FY21E			FY22E			FY23E		
	Old	New	Change	Old	New	Change	Old	New	Change
Care fees	359.5	364.8	1%	394.0	403.7	2%	436.9	449.9	3%
DMF	95.7	97.6	2%	112.7	111.8	-1%	134.8	134.0	-1%
Resale gains	113.2	112.0	-1%	138.1	136.8	-1%	156.1	154.4	-1%
Newsale gains	102.6	94.3	-8%	153.7	155.2	1%	158.7	160.3	1%
Other	1.0	2.0	100%	1.0	1.0	0%	1.0	1.0	0%
Total revenue	**671.9**	**670.6**	**0%**	**799.5**	**808.6**	**1%**	**887.6**	**899.7**	**1%**
Total costs	378.3	392.5	4%	432.3	441.0	2%	479.7	489.2	2%
EBITDA	**293.6**	**278.2**	**-5%**	**367.2**	**367.6**	**0%**	**407.9**	**410.5**	**1%**
Depreciation & amortisation	32.4	32.4	0%	37.6	37.4	-1%	43.5	43.1	-1%
EBIT	**261.2**	**245.7**	**-6%**	**329.5**	**330.2**	**0%**	**364.4**	**367.4**	**1%**
Net interest	20.9	20.9	0%	25.1	25.1	0%	27.2	27.2	0%
Underlying profit	**240.3**	**224.8**	**-6%**	**304.4**	**305.1**	**0%**	**337.2**	**340.2**	**1%**
Annuity EBITDA	**191.0**	**183.8**	**-4%**	**213.5**	**212.4**	**-1%**	**249.2**	**250.2**	**0%**
Underlying EPS (cents)	48.1	45.0	-7%	60.9	61.0	0%	67.4	68.0	1%
DPS (cents)	24.2	21.5	-11%	30.5	30.5	0%	34.0	34.0	0%

Source: Forsyth Barr analysis

Summerset

What's changed?

- **Earnings:** Minor changes to forecasts (FY21/FY22/FY23 +2%/+1%/+2%) reflecting strong Q1 sales metrics and integration of care suites/memory care, more material changes in the outer years following the care suite integration.
- **Target price:** Increased to NZ$13.25 from NZ$12.80

Figure 45. SUM forecast earnings changes (NZ$m)

	FY21E			FY22E			FY23E		
	Old	New	Change	Old	New	Change	Old	New	Change
Care fees	124.8	125.0	0%	138.6	138.6	0%	152.4	154.2	1%
DMF	71.0	71.3	0%	85.0	85.7	1%	100.0	101.0	1%
Resale gains	56.1	57.6	3%	63.4	62.7	-1%	70.5	70.5	0%
New sales gains	71.6	73.4	3%	88.1	86.8	-1%	98.6	99.8	1%
Total revenue	**323.5**	**327.3**	**1%**	**375.2**	**373.8**	**0%**	**421.5**	**425.6**	**1%**
Total costs	161.0	161.0	0%	181.9	180.7	-1%	204.6	205.0	0%
EBITDA	**162.6**	**166.3**	**2%**	**193.3**	**193.1**	**0%**	**216.9**	**220.6**	**2%**
Depreciation & amortisation	9.5	9.5	0%	10.9	10.9	0%	12.4	12.3	0%
EBIT	**153.0**	**156.8**	**2%**	**182.4**	**182.2**	**0%**	**204.5**	**208.2**	**2%**
Net interest	18.2	18.2	0%	21.0	21.0	0%	24.2	24.2	0%
Underlying profit	**134.8**	**138.6**	**3%**	**161.4**	**161.2**	**0%**	**180.3**	**184.0**	**2%**
Annuity EBITDA	**91.0**	**92.9**	**2%**	**105.2**	**106.2**	**1%**	**118.3**	**120.7**	**2%**
EPS (cents)	59.8	61.5	3%	71.6	71.5	0%	79.9	81.6	2%
DPS (cents)	18.0	18.0	0%	21.0	21.0	0%	25.0	25.0	0%

Source: Forsyth Barr analysis

Arvida

What's changed?

- **Earnings:** Meaningfully increased our estimates for FY23 onwards and modestly increased our FY22 estimates following our Care ORA and acquired villages maturity analysis. See our note *"Ageing Well; Upgrade to OUTPERFORM"*, also published today for more detailed analysis.
- **Target price:** Increased to NZ$2.15 from NZ$1.90
- **Rating:** Upgraded to OUTPERFORM from NEUTRAL

Figure 46. ARV forecast earnings changes (NZ$m)

	FY21E			FY22E			FY23E		
	Old	New	Change	Old	New	Change	Old	New	Change
Care fees	133.5	136.1	2%	141.4	146.9	4%	149.7	157.1	5%
DMF	33.1	33.2	0%	40.2	40.0	-1%	48.8	48.8	0%
Resale gains	25.1	26.2	4%	31.7	32.7	3%	36.7	43.2	17%
Newsale gains	17.9	17.5	-2%	26.5	25.5	-4%	30.1	29.2	-3%
Other	5.0	5.0	0%	5.3	5.3	0%	5.5	5.5	0%
Total revenue	**214.6**	**218.0**	**2%**	**245.0**	**250.4**	**2%**	**270.9**	**283.7**	**5%**
Total costs	149.5	152.9	2%	164.3	169.8	3%	178.5	187.2	5%
EBITDA	**65.2**	**65.1**	**0%**	**80.7**	**80.6**	**0%**	**92.5**	**96.5**	**4%**
Depreciation & amortisation	7.3	7.1	-2%	8.2	8.1	0%	9.3	9.3	-1%
EBIT	**57.9**	**58.1**	**0%**	**72.6**	**72.5**	**0%**	**83.1**	**87.2**	**5%**
Net interest & tax	6.7	6.7	0%	6.2	6.0	-4%	6.7	6.6	-2%
Underlying profit	**51.2**	**51.3**	**0%**	**66.3**	**66.5**	**0%**	**76.5**	**80.7**	**6%**
Annuity EBITDA	**47.3**	**47.6**	**1%**	**54.2**	**55.1**	**2%**	**62.3**	**67.3**	**8%**
EPS (cents)	9.4	9.5	0%	12.2	12.3	0%	14.1	14.9	6%
DPS (cents)	5.8	5.8	**0%**	7.0	7.0	0%	7.5	9.0	20%

Source: Forsyth Barr analysis

Oceania Healthcare

What's changed?

- **Earnings:** Minor positive changes reflecting a change in our ORA care suite sales assumption to 90% (previously 80%). We have excluded FY21 estimates given the change in balance date.
- **Target price:** Increased to NZ$1.80 from NZ$1.70

Figure 47. OCA forecast earnings changes (NZ$m)

	FY22E			FY23E		
	Old	New	Change	Old	New	Change
Care fees	173.2	173.2	0.0%	177.8	177.8	0.0%
DMF	50.1	50.5	0.7%	59.8	60.0	0.3%
Village fees	11.0	11.0	0.0%	11.6	11.6	0.0%
Resale gains	23.9	23.9	0.0%	28.1	29.4	4.4%
Newsale gains	33.0	34.6	4.9%	31.6	32.3	2.2%
Other	1.0	1.0	0.0%	1.0	1.0	0.0%
Total revenue	**292.2**	**294.1**	**0.7%**	**310.0**	**312.1**	**0.7%**
Total costs	200.0	200.0	0.0%	208.6	208.6	0.0%
EBITDA	**92.3**	**94.2**	**2.1%**	**101.4**	**103.6**	**2.1%**
Depreciation & amortisation	17.0	17.0	0.0%	18.9	18.9	0.0%
EBIT	**75.3**	**77.2**	**2.6%**	**82.5**	**84.7**	**2.6%**
Net interest	8.1	8.1	0.0%	8.4	8.4	0.0%
Underlying profit	**67.2**	**69.2**	**2.9%**	**74.1**	**76.3**	**2.9%**
Annuity EBITDA	**59.2**	**59.6**	**0.6%**	**69.8**	**71.2**	**2.0%**
EPS (cps)	9.6	9.8	2.9%	10.5	10.8	2.9%
DPS (cps)	4.5	4.5	0.0%	5.0	5.0	0.0%

Source: Forsyth Barr analysis

Arvida Group
Ageing Well; Upgrade to OUTPERFORM

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OUTPERFORM

The NZ aged care operator's business model demands a lot of patience from investors; cash is spent up front to build villages which can take a decade or more to reach maturity and provide steady annuity earnings streams. Arvida (ARV) is a young company with recent major acquisitions of young villages. The large proportion of young villages with comparatively low annuity earnings have resulted in low organic growth. In our report *"Different Times Call for Different Measures"*, published October 2020, we estimated that ARV has delivered mid single digits organic growth, far below RYM and SUM. Looking ahead, we see an acceleration of organic growth up to over +15% per annum driven by; (1) high end villages approaching maturity and (2) a focus on care suites with faster maturity. In our view, ARV's accelerating organic growth is not reflected in its valuation which is at a relative all time low versus the NZ market and the aged care sector — upgrade to OUTPERFORM.

NZX Code	ARV
Share price	NZ$1.70
Target price	NZ$2.15
Risk rating	Medium
Issued shares	541.9m
Market cap	NZ$921m
Avg daily turnover	529.2k (NZ$863k)

Financials: Mar/	20A	21E	22E	23E
NPAT* (NZ$m)	51.7	51.2	66.5	80.7
EPS* (NZc)	9.5	9.5	12.3	14.9
EPS growth* (%)	2.2	-0.9	29.9	21.3
DPS (NZc)	5.8	5.8	7.0	9.0
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	17.8	18.0	13.8	11.4
EV/EBIT	19.9	21.0	16.8	14.0
EV/EBITDA	18.1	18.7	15.1	12.6
Price / NTA	1.3	1.2	1.2	1.1
Cash div yld (%)	3.4	3.4	4.1	5.3
Gross div yld (%)	4.7	4.7	5.7	7.4

What's changed?

- **Earnings:** Minor near-term forecast earnings changes (FY21/22 +1%/+2%), more material changes thereafter.
- **Target price:** Increased to NZ$2.15 (from NZ$1.90)
- **Rating:** Upgraded to OUTPERFORM (from NEUTRAL)

Six maturing villages set to underpin an acceleration of organic growth

We have taken a closer look at the maturity profile of six major villages acquired since listing. These six villages comprise of c. 1,000 Independent Living Units (ILUs), making up approximately half of ARV's total ILUs. Half of these acquired ILUs were completed in the period from 2012 to 2017 and are approaching maturity. We estimate the three Sanderson villages acquired in 2019 will add c. NZ$15m of incremental re-sale gains over the next five years, adding 60% to ARV's current level of re-sale gains.

Attractive valuation on both an absolute and relative basis

After under performing both the aged care sector and the broader market, ARV is currently valued at or close to relative all time lows on P/E. We believe this under performance has primarily been driven by concerns around increasing leverage and slow organic growth. We expect robust FY21 earnings, but believe a sustained re-rating will be driven by the market pricing in the earnings potential from maturing villages and care ORA.

Care ORA relieves pressure on balance sheet and accelerates growth; but a slow burner on the P&L

After a somewhat cautious start, ARV, much like OCA, has fully committed to building out its care offering using the care ORA model whereby care beds are sold using an Occupational Rights Agreement (ORA) rather than a Premium Accommodation Charge (PAC). Over 90% of ARV's planned care units will be built with the intention of selling them under an ORA and will improve cash recovery of capex materially.

Arvida Group Limited (ARV)

Priced as at 13 Apr 2021 (NZ$)	**1.70**

12-month target price (NZ$)*	**2.15**
Expected share price return	26.5%
Net dividend yield	4.2%
Estimated 12-month return	30.7%

Spot valuations (NZ$)	
1. EV/Annuity EBITDA	2.20
2. DDM	2.10
3. n/a	n/a

Key WACC assumptions	
Risk free rate	2.30%
Equity beta	0.88
WACC	5.9%
Terminal growth	1.5%

DCF valuation summary (NZ$m)	
Total firm value	n/a
(Net debt)/cash	n/a
Less: Capitalised operating leases	n/a
Value of equity	n/a

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	179.4	203.0	218.0	250.4	283.7
Normalised EBITDA	**49.6**	**63.3**	**65.0**	**80.6**	**96.5**
Depreciation and amortisation	(5.0)	(5.8)	(7.1)	(8.1)	(9.2)
Normalised EBIT	**44.6**	**57.5**	**58.0**	**72.5**	**87.3**
Net interest	(3.6)	(4.1)	(5.7)	(6.0)	(6.6)
Associate income	0	0	0	0	0
Tax	(2.3)	(1.7)	(1.0)	0	0
Minority interests	0	0	0	0	0
Normalised NPAT	**38.6**	**51.7**	**51.2**	**66.5**	**80.7**
Abnormals/other	20.4	(9.0)	28.1	20.7	12.5
Reported NPAT	**59.1**	**42.6**	**79.4**	**87.2**	**93.1**
Normalised EPS (cps)	9.3	9.5	9.5	12.3	14.9
DPS (cps)	5.4	5.8	5.8	7.0	9.0

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	21.2	18.1	18.7	15.1	12.6
EV/EBIT (x)	23.6	19.9	21.0	16.8	14.0
PE (x)	18.2	17.8	18.0	13.8	11.4
Price/NTA (x)	1.4	1.3	1.2	1.2	1.1
Free cash flow yield (%)	-5.7	-13.4	-10.5	-14.2	-16.1
Net dividend yield (%)	3.1	3.4	3.4	4.1	5.3
Gross dividend yield (%)	4.4	4.7	4.7	5.7	7.4

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	12.3	14.1	10.1	12.1	13.2
Interest cover EBITDA (x)	13.7	15.6	11.3	13.5	14.6
Net debt/ND+E (%)	24.9	29.7	29.2	29.0	29.0
Net debt/EBITDA (x)	3.7	4.9	4.9	4.2	3.7

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	18.0	13.1	7.4	14.9	13.3
EBITDA (%)	14.7	27.7	2.7	23.9	19.7
EBIT (%)	14.2	29.1	0.8	25.1	20.4
Normalised NPAT (%)	17.1	33.8	-0.9	29.9	21.3
Normalised EPS (%)	17.1	2.2	-0.9	29.9	21.3
Ordinary DPS (%)	6.8	8.4	0.0	20.7	28.6

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	3.4	3.0	2.7	3.0	3.2
Return on equity (%)	6.9	7.1	6.6	8.0	9.3
Return on funds employed (%)	5.2	5.0	4.5	5.5	6.3
EBITDA margin (%)	27.6	31.2	29.8	32.2	34.0
EBIT margin (%)	24.8	28.3	26.6	29.0	30.8
Capex to sales (%)	45.7	74.2	60.2	72.2	72.5
Capex to depreciation (%)	1,624	2,585	1,850	2,226	2,226
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	57	61	61	57	60

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**49.6**	**63.3**	**65.0**	**80.6**	**96.5**
Working capital change	8.6	24.0	8.0	20.6	18.5
Interest & tax paid	(5.9)	(5.8)	(6.7)	(6.0)	(6.6)
Other	(22.8)	(54.4)	(31.5)	(45.6)	(50.8)
Operating cash flow	**29.5**	**27.1**	**34.8**	**49.6**	**57.6**
Capital expenditure	(82.0)	(150.6)	(131.2)	(180.8)	(205.8)
(Acquisitions)/divestments	12.2	(104.1)	113.6	152.3	177.9
Other	(3.6)	(7.4)	1.0	1.0	1.0
Funding available/(required)	**(43.9)**	**(235.0)**	**18.2**	**22.2**	**30.7**
Dividends paid	(22.7)	(29.6)	(31.4)	(37.9)	(48.8)
Equity raised/(returned)	0	141.7	0	0	0
(Increase)/decrease in net debt	**(66.6)**	**(122.8)**	**(13.2)**	**(15.7)**	**(18.0)**

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Care fees	125.6	129.5	136.1	146.9	157.1
Management fees	21.4	29.0	33.2	40.0	48.8
Resale gains	19.5	23.7	26.2	32.7	43.2
New sale gains	7.5	15.6	17.5	25.5	29.2
Other	5.4	5.1	5.0	5.3	5.5
Total revenue	**179.4**	**203.0**	**218.0**	**250.4**	**283.7**
Key Drivers					
Sales - new units	70	126	145	211	245
Ave price - new sales (NZ 000's)	633	763	804	746	743
Sales - resold units	258	278	263	324	372
Ave price - new sales (NZ 000's)	338	377	428	458	482
Gross development margin	17%	16%	15%	16%	16%
Gross resales margin	22%	23%	23%	22%	24%
Total portfolio					
Standard care beds	1,722	1,688	1,688	1,688	1,688
Serviced apartments	664	662	662	662	662
ILU's	1,266	1,788	1,894	2,084	2,284
Care suites (ORA)	25	25	101	136	216
Care suites (PAC)	0	0	65	75	85
Total	**3,677**	**4,163**	**4,410**	**4,645**	**4,935**

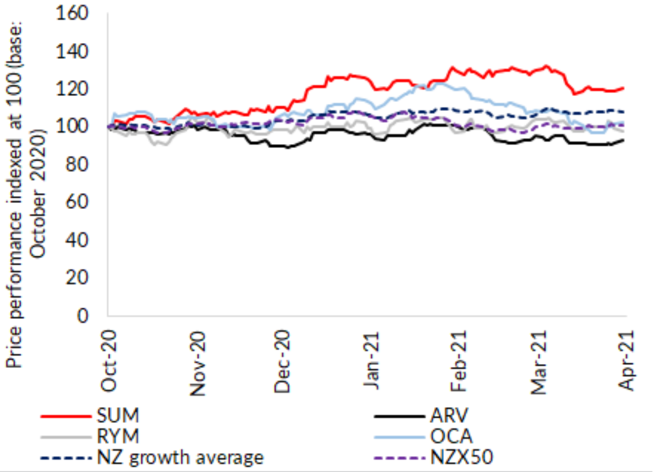
Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	(45.9)	(69.9)	(77.9)	(98.5)	(117.0)
Fixed assets	1,190.3	1,804.2	1,997.5	2,247.1	2,526.4
Intangibles	54.0	36.0	36.0	36.0	36.0
Right of use asset	0	0	0	0	0
Other assets	42.8	51.4	52.6	59.6	64.3
Total funds employed	**1,241.2**	**1,821.8**	**2,008.2**	**2,244.2**	**2,509.7**
Net debt/(cash)	185.5	308.3	321.5	337.2	355.2
Lease liability	0	4.9	4.9	4.9	4.9
Other liabilities	496.8	778.8	904.1	1,075.1	1,278.2
Shareholder's funds	558.8	729.8	777.7	827.0	871.4
Minority interests	0	0	0	0	0
Total funding sources	**1,241.2**	**1,821.8**	**2,008.2**	**2,244.2**	**2,509.7**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Our upgrade in charts

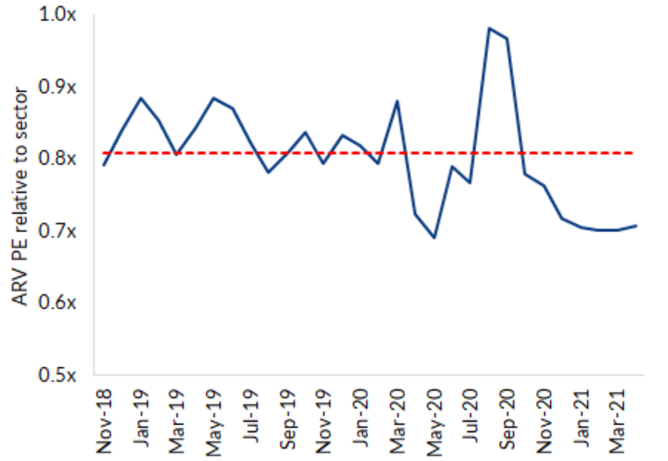
We upgrade ARV to OUTPERFORM (from NEUTRAL) following its relative underperformance against; (1) the aged care sector, (2) NZ growth peers and (3) the NZ market. As a result, we now view valuation as particularly attractive on both an absolute (~14x 12m forward PE and ~20x 12m forward EV/Annuity EBITDA) and relative basis with its relative trading range approaching near all-time lows against both the NZ market median and sector peers.

Figure 1. ARV has underperformed over the past six months...



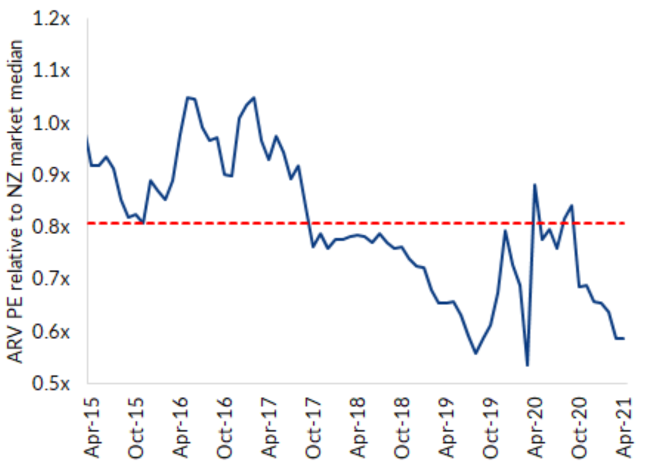
Source: Forsyth Barr analysis, Thomson Reuters

Figure 2. ...and valuation now looks attractive versus the sector...



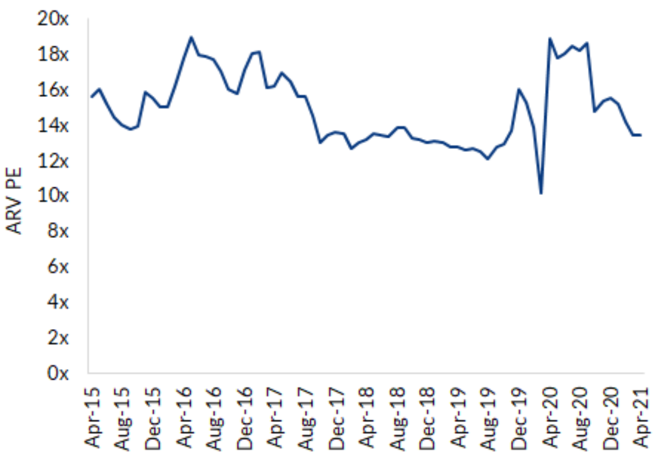
Source: Forsyth Barr analysis

Figure 3. ...and the NZ market



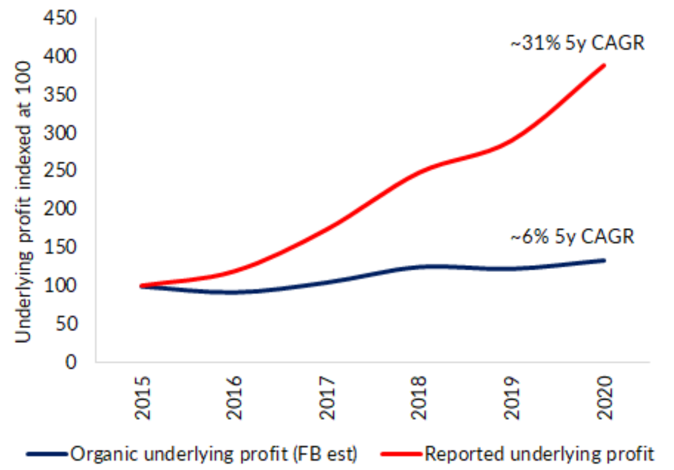
Source: Forsyth Barr analysis

Figure 4. ...with no multiple expansion through time



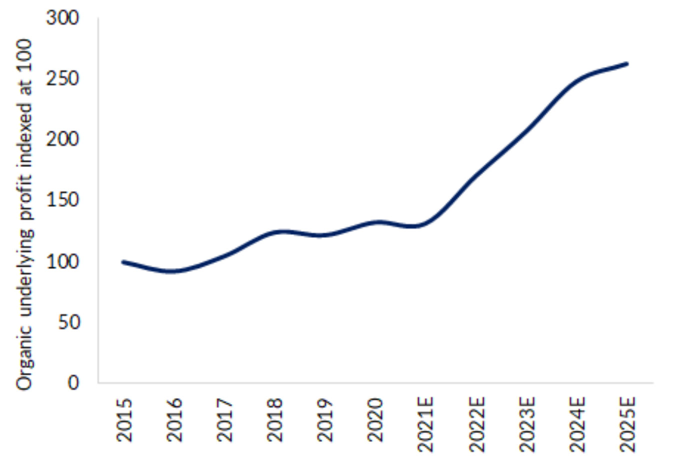
Source: Forsyth Barr analysis

Figure 5. Organic underlying growth has been subdued to date...



Source: Forsyth Barr analysis, Company reports

Figure 6. ...however, we expect this to change



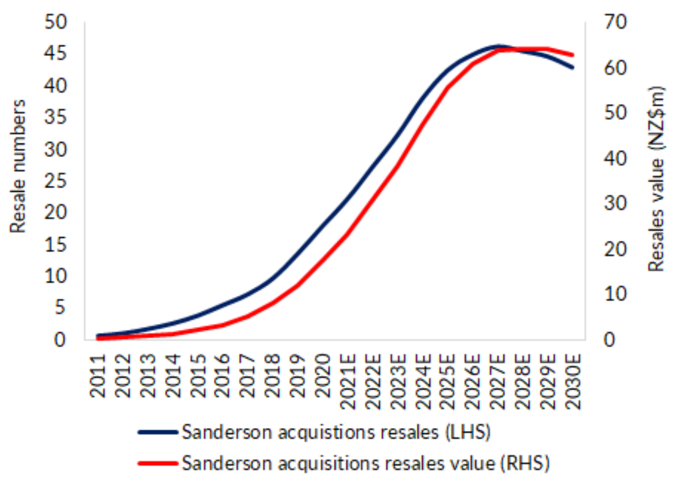
Source: Forsyth Barr analysis, Company reports

We believe the main reason for ARV's relatively low valuation relates to its historically modest organic growth. While the headline growth has been sector leading at 30% per annum, this has primarily been achieved through acquisitions, partly funded by multiple equity raisings. Organic growth as well as per share earnings growth have been modest, we estimate around mid-single digits.

A closer look at recent acquisitions points to substantial acceleration in re-sale gains and associated DMF

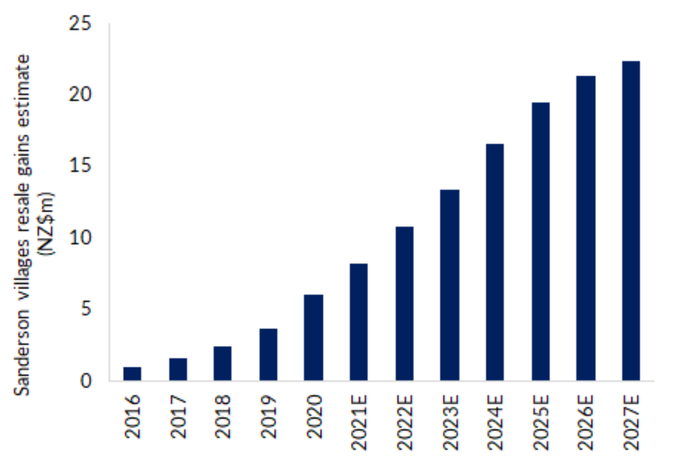
ARV's acquisitions have been focussed on relatively young villages, particularly in the case of the most recent high-end Sanderson acquisitions. This has introduced a level of uncertainty around the steady state earnings potential from these villages. As an illustrative point, Bethlehem Shores, with 146 ILUs, had less than five re-sales in FY20 while the equally large but more mature Bethlehem Country Club had 10–15. More broadly, our analysis of the timing of first occupant for the three Sanderson villages acquired points to the number of re-sales doubling over the next five years.

Figure 7. Annuity growth phase only just approaching (Sanderson case study)...



Source: Forsyth Barr analysis, NB; Sanderson case study represents Bethlehem Shores, Bethlehem Country Club and Queenstown Country Club

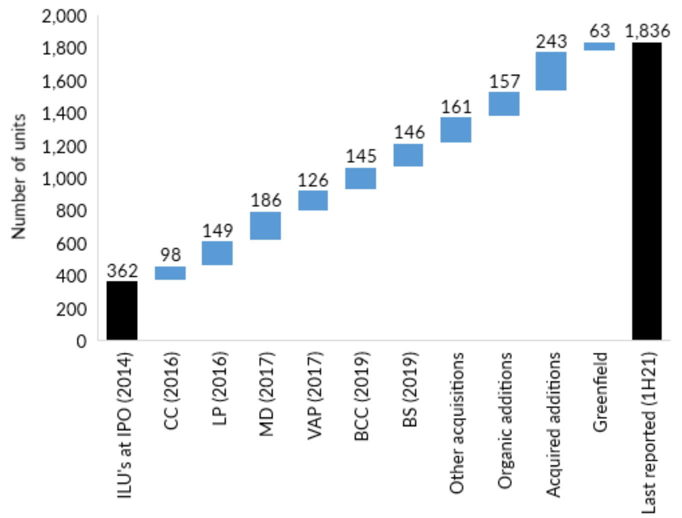
Figure 8. ...with strong resales gains set to be realised



Source: Forsyth Barr analysis

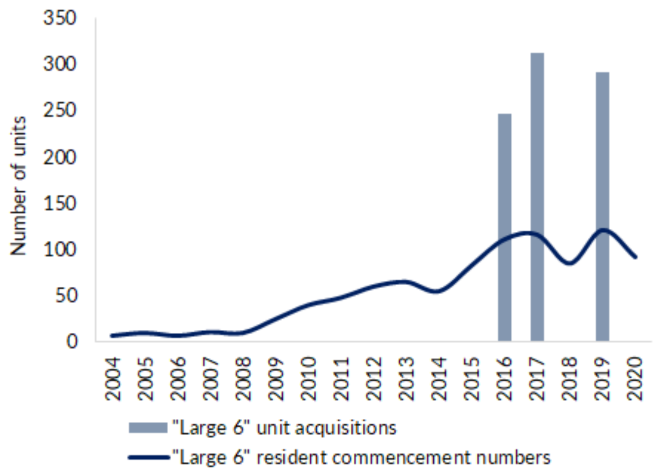
The impact on re-sale gains is likely to be significantly larger due to the compounding effect of higher house prices. By 2025, using a 35% re-sale margin (which we believe to be conservative) we estimate that the three Sanderson villages alone will deliver close to NZ$20m of re-sale gains, up from around NZ$4m today. To put this into context; in FY20 ARV reported total re-sale gains of NZ$24m.

Figure 9. Strong history of acquisitions since listing



Source: Forsyth Barr analysis, Company reports, NB; BCC=Bethlehem Country Club, BS=Bethlehem Shores, CC=Copper Crest, MD=Mary Doyle, LP=Lauriston Park, VAP=Village at the Park

Figure 10. .Maturity is now approaching for ARV's large recent acquisitions



Source: Forsyth Barr analysis, Company reports. NB; "Large 6" represents Bethlehem Country Club, Bethlehem Shores, Copper Crest, Mary Doyle, Lauriston Park, Village at the Park

DMF is effectively a function of new and re-sales. The combination of higher re-sale gains and DMF should drive an acceleration of organic growth in annuity earnings from mid single digits to over 15% p.a.

Earnings changes

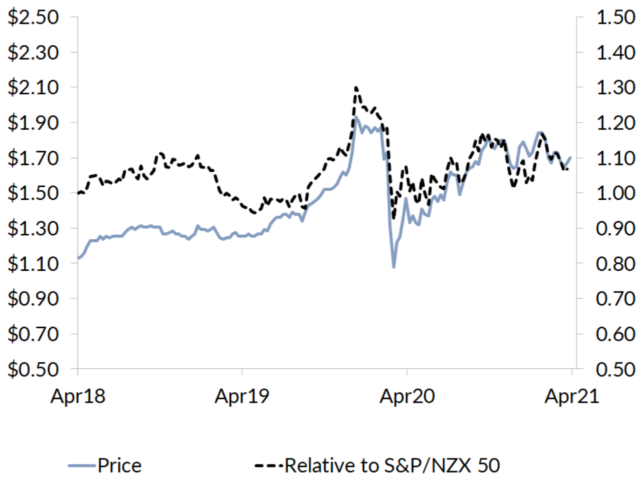
We make minor near-term forecast earnings changes (FY21/22 +1%/+2%), more material changes are made thereafter as we incorporate the full benefits of ARV's transition into care suites. Albeit, this will take time to reach maturity given ARV is still very much in the early days of its care portfolio transformation.

Figure 11. Forecast earnings changes (NZ$m)

		FY21E			FY22E			FY23E	
	Old	New	Change	Old	New	Change	Old	New	Change
Care fees	133.5	136.1	2%	141.4	146.9	4%	149.7	157.1	5%
DMF	33.1	33.2	0%	40.2	40.0	-1%	48.8	48.8	0%
Resale gains	25.1	26.2	4%	31.7	32.7	3%	36.7	43.2	17%
Newsale gains	17.9	17.5	-2%	26.5	25.5	-4%	30.1	29.2	-3%
Other	5.0	5.0	0%	5.3	5.3	0%	5.5	5.5	0%
Total revenue	**214.6**	**218.0**	**2%**	**245.0**	**250.4**	**2%**	**270.9**	**283.7**	**5%**
Total costs	149.5	152.9	2%	164.3	169.8	3%	178.5	187.2	5%
EBITDA	**65.2**	**65.1**	**0%**	**80.7**	**80.6**	**0%**	**92.5**	**96.5**	**4%**
Depreciation & amortisation	7.3	7.1	-2%	8.2	8.1	0%	9.3	9.3	-1%
EBIT	**57.9**	**58.1**	**0%**	**72.6**	**72.5**	**0%**	**83.1**	**87.2**	**5%**
Net interest & tax	6.7	6.7	0%	6.2	6.0	-4%	6.7	6.6	-2%
Underlying profit	**51.2**	**51.3**	**0%**	**66.3**	**66.5**	**0%**	**76.5**	**80.7**	**6%**
Annuity EBITDA	**47.3**	**47.6**	**1%**	**54.2**	**55.1**	**2%**	**62.3**	**67.3**	**8%**
EPS (cents)	9.4	9.5	0%	12.2	12.3	0%	14.1	14.9	6%
DPS (cents)	5.8	5.8	**0%**	7.0	7.0	0%	7.5	9.0	20%

Source: Forsyth Barr analysis

Figure 12. Price performance



Source: Forsyth Barr analysis

Figure 13. Substantial shareholders

Shareholder	Latest Holding
Forsyth Barr Investment Management	9.4%
Generate Investment Management	5.1%

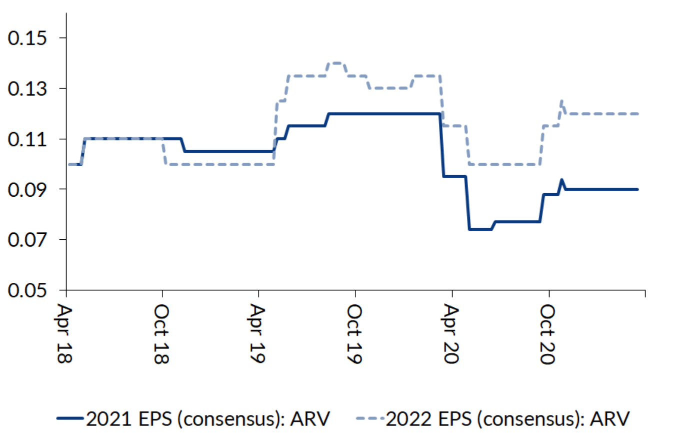
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 14. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect ARV's balance date - March)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Arvida Group Limited	**ARV NZ**	**NZ$1.70**	**NZ$921**	**18.0x**	**13.8x**	**18.9x**	**15.3x**	**21.2x**	**17.0x**	**4.1%**
RYMAN HEALTHCARE *	RYM NZ	NZ$14.87	NZ$7,435	30.9x	24.4x	31.1x	24.9x	35.0x	27.7x	2.1%
SUMMERSET GROUP LIMITED *	SUM NZ	NZ$12.00	NZ$2,753	25.5x	19.2x	26.0x	19.7x	27.8x	20.9x	1.6%
OCEANIA HEALTHCARE *	OCA NZ	NZ$1.33	NZ$913	17.9x	13.8x	17.8x	13.2x	22.2x	16.2x	3.4%
REGIS HEALTHCARE	REG AT	A$2.29	A$689	69.0x	26.2x	6.4x	6.3x	10.3x	9.5x	3.5%
JAPARA HEALTHCARE	JHC AT	A$0.77	A$204	<0x	58.6x	13.0x	13.0x	<0x	<0x	1.5%
ESTIA HEALTH	EHE AT	A$2.34	A$611	75.0x	48.2x	<0x	7.8x	9.0x	11.3x	2.3%
			Compco Average:	**43.7x**	**31.7x**	**18.9x**	**14.2x**	**20.9x**	**17.1x**	**2.4%**
EV = Current Market Cap + Actual Net Debt			**ARV Relative:**	**-59%**	**-56%**	**0%**	**8%**	**2%**	**-1%**	**73%**

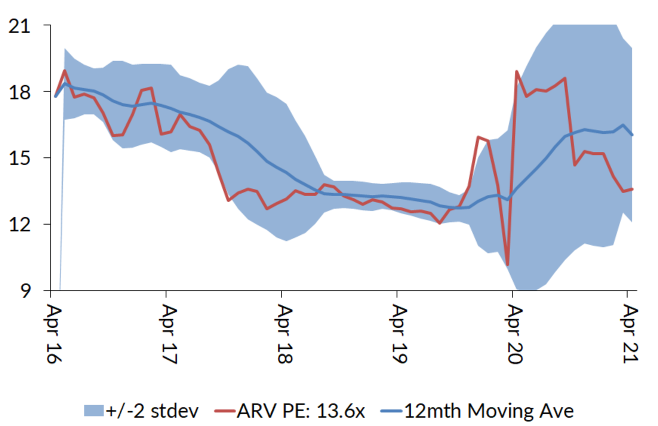
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (ARV) companies fiscal year end

Figure 15. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 16. One year forward PE (x)



Source: Forsyth Barr analysis

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