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# TRANSCRIPT

FKP.AX - Interim 2012 FKP Property Group Earnings  
Presentation

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## PRESENTATION

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**Peter Brown - FKP Limited - Managing Director and CEO**

Good morning, everyone and welcome to the half year presentation of the FKP financial year 2012 half year profit.

FKP goes into this 2012 calendar year on the front foot, and I think it is well and truly needed, given the way the market has been, particularly in the residential area. The half year result that I present today is probably indicative of that. I think it is a very credible result. It was always expected that -- and was always known that FKP would be skewed to the second half.

In terms of the first half result it is fairly much as we expected for some time. The second half we are making some slight variations on forecast, and I will go into a little bit more detail.

Firstly, in terms of the residential sector -- obviously, with the weighting of FKP to the residential sector -- and I am counting retirement because of the link as part of that residential sector -- it has been very difficult trading conditions. The market, of course, has been patchy for some time. Probably the biggest change that we are starting to see coming through in our results has been, probably, the slowdown of Melbourne, which has had an impact.

I will talk more about the market as we go through this presentation because it certainly is not all doom and gloom. There are some bright sparks starting to show, particularly in areas such as South East Queensland and Sydney.

That has also had an impact on our sales at retirement units. Retirement tends to be more needs based rather than actual desire or -- to buy, and so, hence, it should withstand any downturn in a much stronger fashion. However, there is always that link towards financing the purchase of a retirement village through the sale of your home; and that is where the link comes in terms of the residential market.

The diversity of our portfolios supports our overall results. I said I think it is a very credible result, given the market circumstances; and what is particularly pleasing from where I sit, when we look at our numbers that we have got in terms of our sales and we look at our benchmarking -- and we do benchmark against competitors -- so be it a Point Cook and its local area and competitive set, be it a Peregian, be it a Rochedale, be it the retirement sales -- we do benchmark against all of our competitors; and all our benchmark is showing that we are outperforming. What that is is an indication that we are very focused in terms of our marketing strategies and our sales.

I think, on the positive side in tough markets -- and you will see this as we go through the presentation -- our margins maintain at a very high level. In fact, I do not think I have seen anyone -- any other group with the same sort of margins that we deliver; and we expect to continue those margins on the basis that, as ever, FKP are not in the discounting mode.



I did talk in terms of the second half and the expectations. The skew was always going to be roughly about one third, two thirds in this financial year. We seem to have this problem every time at half year. If I sit back two years ago when I was giving this presentation we were toying on Point Cook first settlements and whether they would be coming in by 30 June.

This time last year we were saying the same with Rochedale. You will recall that we took -- the Board took a conservative view not to include the Rochedale settlements for the last prior corresponding year in this forecast for the 2011 financial year.

What the Board are doing here, we are doing the same approach in terms of Aerial. Aerial was always going to be a June settlement and June delivery. It is an external build. We have some concerns on the deliverability of that external build, particularly given that it is an external builder. We are very comfortable with the quality. We are very comfortable it will be finished. We are just not so comfortable to include it in our results.

Now, of course, last year, when we took Rochedale out of that equation, we had a very strong Point Cook to more than make up for those results. Unfortunately, we do not have that strong Point Cook. So what we are saying is an underlying profit for financial '12 likely to fall in the range of financial year '10 compared to financial year '11, pre the adjustment for Aerial.

In terms of the half year result, underlying profit after tax of AUD43.1 million against AUD54.6 million. Again, fairly much where we always expected. I think a very important point to note on this profit is that the development side of the Business -- being roughly half the Business -- with retirement being the other half -- I believe has delivered very well, and we expect it to deliver very well in the second half as well. The only slight aberration being Aerial which, of course, is only a timing thing; it is certainly no loss of profit.

Statutory profit after tax of AUD12.7 million, with interest rate hedging being the main deduction coming off there. Underlying EPS of AUD0.036; recurring income 65%. The distribution, which was confirmed at the end of December, of AUD0.014 per security; NTA of AUD1.22; gearing just moving up slightly to 30.9%, given the amount of development we have.

Obviously, Aerial is getting their full draw down. We have now started Luxe. We have started stage 2 of Gasworks. So that gearing will move up slightly until such time as the settlements of Aerial come through.

In terms of the divisional contribution, the residential and communities at AUD10.7 million; retirement operations AUD9.8 million. If I had to pick two areas where I am slightly disappointed in this half year result I would say it is that retirement operations. I will go more into that in detail on the retirement divisional report. The sales had been very hard to make. We are seeing some positive signs into the second half, but that certainly -- quite happy with the development side of the Business. It really is that retirement side that has been slightly disappointing in the first half.

The value of the retirement valuation -- which is really a reflection of the slowdown in the sales being an increase -- the commercial/industrial down, that is really comparing to Energex profits that were taken up in the prior year.

Again, I will go into the commercial/industrial. I think we are sneaking up on a lot of people in terms of commercial and industrial and what we are actually building. There is some very good news coming through on the commercial/industrial.

Funds and investment relatively steady. Corporate overheads, again, this -- the cost drives that we have been focusing on, really, through the GFC are coming home to pay dividends for us; all leading to an underlying net profit of AUD43.1 million against AUD54.6 million. Again, I emphasise it was actually always expected to be around this area, even going back to May last year.

In terms of the divisional commentary, the communities -- one take -- I guess the two takes I would like investors to take from this slide is the fact that the presales are fairly steady, but also the margins. I talked about it earlier. The average margins -- including interest of 36%, including interest 25% -- again, very high.

I have talked often about our reluctance to discount; so if you take a development such as Point Cook -- when our competitive set down there are discounting -- we have chosen not to discount, yet our benchmarking still shows that we are delivering greater sales than our competitors. We are seeing a very similar result up in Peregian. We are seeing a similar result in Rochedale.

That goes through to the apartment side, and I will go into a little bit more detail shortly on the apartment side; but to see those margins come through, I think, puts us in a very strong position, moving forward.



We have had -- obviously Saltwater Coast has been impacted, it has been softer. We would be thinking this year we will probably be doing -- without any major (inaudible) probably around about 150 sales. That compared to, probably, a bit more than 250 last year. So that is seeing the slowdown but, again, I emphasise there is no discounting going through there.

Rochedale, in terms of councils' approvals -- councils up in South East Queensland just prove to be very hard to deal with. We have finally got there, and that has even impacted a bit on this first half result; but we will be seeing a lot more settlements coming through in the second half on Rochedale.

It will have Rochedale, the largest build and display village in Queensland. That is getting very close to completion, and I think that will be quite a good spur in terms of sales on that development.

Peregian Springs have held up and we are actually seeing some good improving signs going into the second half of Peregian Springs. So at this stage we are probably about the same place that we were this time last year, but we are seeing an improving market and improving signs in terms of the sales funnel coming through Peregian.

Construction of Aerial, as I have discussed, continues; being delivered by Hansen Yuncken, and we anxiously await their quality delivery of that development.

Overall contracts in hand are marginally higher, as I alluded to earlier on.

In terms of the diversity, obviously, between Queensland, New South Wales and Victoria, we are seeing some very positive signs in New South Wales. Mulgoa is under construction. We are actually just launched the first few lots there -- and there is a slide coming on which gives a bit more detail there.

Luxe is now under construction. Rochedale Estates and Peregian; Milton and Albion I will talk a bit more about shortly; and, of course, Aerial and Saltwater Coast down in Victoria.

On the communities front Saltwater Coast, Point Cook, 1500 lots to go. We just opened the community centre. It really is taking great shape and I expect, despite market conditions, I expect to see the sales continue through, and I have given an indication of where I would see those sales landing in this current year.

Peregian Springs, again, I have spoken to. We are seeing some earlier signs of picking up, so we would be probably looking at getting a bit over that 100 mark in terms of our sales at Peregian.

Rochedale, probably similar sort of numbers; a bit more than that.

Mulgoa, as I said, really good timing. Sydney is probably looking the best of all the markets right now. Sydney has been relatively stable for some time and it is a very good time for us to bringing on the 600 lots out at Mulgoa.

It will probably be [line bore] on the amount that will come into the second half, but it will certainly be sitting there, full bore, for the next financial year; all up about 5000 lots with an estimated remaining value of AUD1.7 billion.

In terms of the apartments side, Aerial -- we have only got 22 to sell so really, it's about -- it's about delivering. I see very, very -- if ever there's been a development with low settlement risk, it's Aerial. It's a -- it's a very nice, high profit project, which as I said, if it doesn't come into this year, we'll certainly start the next year on a very steady way. Luxe at Woolloomooloo, only 29 still to sell. We're under construction, so we expect to see that finished in about 14 months, 15 months, we should be completing that. Second half of the next financial year.

The Milton's a really good story. You know, everyone knows about South East Queensland. There's been a lot of doom and gloom about South East Queensland, but we are seeing some good positive signs and, I guess, the heritage of FKP in South East in Queensland really comes to the fore here.

What we've seen now is we've seen we're moving very close to our presales target of 50%. We've probably seen 50 sales in the last few months come through on Milton and we'd expect to be actually starting construction of Milton in the first half of financial year '13. Albion, as well. Albion we -- we've gone a bit slow on Albion, mainly, because we wanted to focus on Milton, but for what's a fairly low key campaign, we're quite pleased to see the sales come through, with some 25 sales already made on Albion. So it's a smaller development than Milton, so I -- once we get Milton over that line and construction is starting, I wouldn't think Albion is too far away and then, of course, we have the further stages of Albion to go, as well as the 900 units in terms of the Gasworks Residential at Newstead. Still today at Newstead, we have not developed any residential. We're very much leaving that to Mirvac.



We've been developing the -- obviously, the Energex Commercial and we're now building stage 2, which is a 8000 square metre commercial and 8000 square metre retail centre. All up, about 1900 apartments, in terms of the forward book. Retirement results. I think the -- I talked about probably being a little bit disappointing, but there are some positive signs to take out of that disappointment.

I think, you go straight to that chart on slide 11, you'll see that the portfolio turnover is down on the prior corresponding period from 9% to 7%. Probably there reason for that is best explained by the looking at the line underneath it, with occupancy, so whereas this time last year, we had occupancy of 94%, we now have 92%. So there actually is a positive that comes out of that, because in terms of the model, we rely on two things. We rely on units becoming available, to be able to resell, but we also rely on being able to resell.

To see that vacancy move, whilst it's not something that you target and something that's desirable, it's certainly better than seeing the occupancy staying static while your sales drop. So what it means is the availability is coming through, we're just finding it hard to sell. Interestingly, we're not so much seeing it on the deposit side. We have a solid level of deposits, but it's really the ability to convert. It's working with those residents to sell their home. You have to work with them, in terms of expectation and the actual sale, so we do have a lot of deposits, but a lot of it is dependent on sales.

Interestingly, when you look at -- of course, through RVG, I sit on all the Boards of our businesses over in New Zealand and when I look at what happened in New Zealand's retirement market, where Australia is right now is almost identical to where New Zealand was two or three years ago. Almost identical, yet I was over in New Zealand last year and now, all retirement are well exceeded all budgets and there's cash coming -- generation coming out everywhere, so it is amazing. I often said how quickly these markets do turn around. We do know that there's a huge undersupply of retirement villages, so whilst it has been a tough first half, we're seeing some improving signs in the second half, but I expect over the next reporting period to see a very strong pick up in terms of these retirement sales, despite the bouncy, if you want to call it, residential position.

The other point I'd like to make on this slide is the transaction price point. We've talked about that price point going up. You can see it's up from AUD250,000 average price point to AUD275,000 price point. Average DMF capital gain per transaction up 9%, from AUD86,000 to AUD94,000.

Again, this is consistent. I've said this in previous years. If you go to the very bottom of that chart and look at the AUD2 billion value, you divide that roughly by the bit over 6000 units that FKP has, you can see that the average transaction price point is above AUD275,000 and I've been saying, we would expect to see that price point growing over time and this is evidence of that. So the positive, to take out of this, even though the turnover is, probably, I've often talked the range of 8% to 12%, being the range for retirement. The positive that comes out of this is the fact that those transaction price points has gone up and most importantly, that the average DMF capital gain per transaction has actually increased by 9%. In terms of the actual sales in retirement, they tend to be relatively inelastic to price. So we have had actually seen our price growth continue on.

What is missing in retirement and what is really missing, generally, in residential, I believe, is commitment and security in the minds of the purchasers. That's never optimal. It makes it very hard to sell, but it's certainly a lot better than having a different market situation, which is one of over supply or one of no credit. It's fair to say that in residential, there is still plenty of credit for buyers. It is also fair to say that apart from a few small pockets around country, there really is no oversupply of residential and there certainly is no oversupply of retirements. So the positive of having that insecurity or that lack of ability to commit is they can turn around very quickly, once our Government, sort of, sort themselves out and everyone gets a better view in terms of where the world's going to be going.

In terms of refurbishment program, we put a slide in, just to really illustrate where the refurbishment -- one of the great advantages of FKPs retirement business, which I've often talked about is its age. I think if you have a portfolio of HJs or office buildings, you really don't want to have the oldest portfolio. In retirement, you certainly do want to have the oldest portfolio and FKP certainly has that. What it does, it gives you a wonderful opportunity to do a buyback, which is effectively, a unit becomes available. In other words, the owners are looking to sell. We buy it. We refurbish it. We then sell it. What it does, it actually gives us a turn, in terms of a bit of a development profit. We don't do it for that reason, but really what it does, it sets the value up and it does increase the value of that business going forward and I think, there's a good illustration of that on that slide 12.

In terms of the outlook, we know -- we have all up, obviously, 10,000 owned and managed retirement units in Australia. On top of that, another 3000, moving us to 13,000 with a pipeline of 1500 through Australia and New Zealand. Obviously, with the takeover of the taking out of Macquarie to be the sole manager of RVG now moves us much closer to those -- that business of RVG in Australia and New Zealand.

I talked about the New Zealand retirement market and what's very interesting here is that we have a business in US, in retirement, basically around the South East, Florida, North Carolina, South Carolina. We've had that business for some time and what that's given us is this wonderful look into how that business works in the US and Canada, to some extent, which is a very similar model. On top of that, the business in New Zealand has really given us a lot of, I guess, visibility, in terms of the strategy.



When I go to the US and look at the retirement assets there and I look at the support that the listed market is giving retirement in the US, it's absolutely phenomenal. When I go to New Zealand, where I was last week, and look at the support that's coming from listed investors and unlisted investors in New Zealand. It's phenomenal. It's not existing in Australia and I think for what they're showing is that it's showing that we're doing something wrong. We're either not selling it well or we've got to look at what our model is, so with that in mind, and part of being on the front foot, FKP is moving into a strategic review of our retirement assets. That strategic review really can be divided into two sections. It can be divided into ownership. We have, obviously, three main entities of ownership, here in Australia, of our retirement assets.

There's the ones that are fully owned on our own balance sheet. There's Forest Place, where we own, I think, 86% of a separately listed public company and there's RVG. As you can see from these stats, the FKP balance sheet is actually not as big in unit numbers as Forest Place and RVG combined. So when we look at the strategic view, we are very serious about consolidation of that ownership entities. So we are going to be conducting the strategic review, in terms of that consolidation. With that in mind, we have a lot of interest coming from a lot of different investment groups. Not just in Australia, but out of Asia. Out of the North America, but also out of New Zealand and obviously, having those businesses and having our largest shareholder based in China, or based in Hong Kong, actually gives us a wonderful in road into all those markets.

So that really leads on to the second part of the strategic review, the first being ownership. The second part is the model. Retirement, I think, you know, historically we, and many of our competitors, have come at from a real estate point of view. That should not be discounted. It is real estate and it really is very much like residential real estate in terms of managing it, but there's a separate part to it. It's the care part. Now, what is happening is phenomenal change are coming through in retirement. What you are seeing in, not so long ago, the average age of entry into our retirement villages was 69. Today, the average entry age is almost 80. It's about 79. A bit over 79. Now why is that? Well, everyone's healthier. Everyone's living longer, so what we're seeing is the model adjusting for that greater level of health.

Now what is now coming through is that with that average entry age, there's a much stronger need for services to be provided in retirement. It's probably something that we here in Australia have not provided very well. There's often been a huge gap between what you'd see in terms of most of the retirement villages that FKP run in Australia and what you'd get in terms of a hostel and nursing home. There's actually a very strong market in the middle, which is really summarised best when you go to the US and you see what the health care rets are, who really are retirement businesses. So we are doing that strategic review. We will be coming back to the market. I would expect it would be two to three months, where we will come and do some presentations on both that ownership side, as well as that model going forward.

But what we do intend to do, we intend to be on the front foot and we intend to lead in terms of this. As you can see, the numbers of units we have, I think it really is expected of us to lead the market going forward. I think, retirement, the strength of FKP is the actual assets that we have and it's the fact that we are the dominant player in terms of Australian and New Zealand and we need to leverage on that. Commercial/Industrial, I touched on before. It is sneaking up on us, in terms of the opportunities in this. We talked about the profit being down, mainly because of the Energex coming through or the last of the Energex profit coming in, but as you can see, construction of stage 2 of Gasworks is on track to be completed by mid-2012. Don't you love all these mid calendar year dates that we seem to get as a public company?

What we have there is 8000 square metres of retail, 8000 square metres of commercial. Commercial market's looking very strong and I'm hoping to have some very good news about a separate commercial opportunity up in South East Queensland in the next couple of weeks. But meanwhile, construction is commenced in terms of stage 2. 16,000 square metres. The retail is virtually all leased, with Woolworths being the anchor, so we expect to see a pretty good result coming through and as I said, hopefully, we'll have some good news about a stage 3, in terms of Gasworks, as well. A really -- another good story on the commercial side is Chatswood. We've seen some good positive signs coming through, I think, the North Sydney, but particularly for us at Chatswood. We have -- we are refurbishing a AUD25 million refurbishment on Suncorp vacating our Vero Tower out at Chatswood. Pleasingly, we have signed Vodafone for 40% of that office space. We're seeing some very strong enquiry coming through.

It won't actually -- the refurb work won't be actually be finished until the middle of the year, so I think we're sitting in a very good position, in terms of the refurbishment of the Vero development that I alluded to at the last profit announcement. Recurring incomes dropped slightly. We've sold the Spring Street office property. Really part of our capital recycling, really funding out development pipeline, which I think is a really is a pretty exciting development pipeline coming through.

Fund management investment. I talked about RVG. The reason FKP goes into this year on the front foot is that we came out of the GFC you know two and a half years ago, and I said the priority is to fix RVG up, it has taken two years of negotiation but we finally got there in terms of RVG.



We now have sole management of it. We are engaged with the investors, it's a very positive engagement. It's tied up in what I talked about the strategic review going forward, particularly on the ownership side. I don't think they can offer us all that much on the actual product offering side, but they can certainly offer us an awful lot in the ownership side.

Obviously the New Zealand business has been going very strongly. I talked about the sales over there exceeding budget. We have seen a very strong turnaround in share - in actual share market support on the New Zealand Stock Exchange. And with that in mind, Metlifecare which is now 50% owned by RVG, it was 80%, raised NZD100 million in a couple of days back around Melbourne Cup time.

A very strong sign of support for retirement in New Zealand and we have a business down there - over there now which has virtually zero debt, has a little bit but nothing substantial, and is geared to now grow.

The focus is now on the Australian assets and this consolidation as well as the product offering. I should point out that the product offering strategy is part of a review in New Zealand as well.

Port Bouvard; probably been the disappointment. You know the managerial market has been slower than expected. The Oceanique sales our investment was a very conservative investment, we did invest well below NTA and we did only invest for 30% of that company. The real key for us there is to continue the Oceanique selling. I think we're down to about 25 units still to go, so we are seeing progress there.

But the main game is to get the Point Grey approval through. As anyone knows that's been involved in these planning approvals, particularly where marine is concerned, they are very timely and very complex. We're seeing some good progress and we expect to be there probably in the next six months in terms of that approval coming through for Port Bouvard.

With that we'll move onto the capital management section, and I'll hand it over to David Hunt, our CFO.

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**David Hunt - FKP Limited - CFO**

Thanks Peter and good morning to everyone. Firstly I'd like to take you through the funding requirements to 30 June 2012.

At our year end presentation in August last year, I presented the Group's sources and uses of funds for FY12. This is the same slide, however it also shows the impact of deferring Aerial to first quarter FY13. I'll firstly discuss the impact of Aerial and then provide details of the sources and uses of funds to 30 June 2012.

Chart 1 is based on our original guidance where Aerial settles in FY12 and has a surplus capacity of AUD142 million after fully repaying AUD95 million of Aerial project debt from the settlement proceeds.

Chart 2 is our current forecast which excludes Aerial, with no settlement proceeds and the project debt still in place. The expected closing surplus capacity is AUD126 million.

The movement between the two charts, a surplus capacity of AUD16 million can be reconciled by taking the net movement in development cash flows, being the inventory receipts less the inventory spend of AUD111 million between the two charts, and offsetting the repayment of the AUD95 million project debt. Note that just as any new facility increases surplus capacity a repayment of a facility will decrease the capacity.

Now to the details of our sources and uses of funds as shown in the second chart. Starting with our current capacity of AUD208 million; this is made up of AUD113 million from our major facilities, AUD82 million of project finance facilities, and AUD13 million of cash. Other net receipts includes AUD19 million of net retirement cash flows, and AUD4 million of net rental income, offset by AUD18 million of corporate and divisional costs.

Of the AUD88 million inventory receipts AUD70 million, or 80%, comes from three residential community projects being; Point Cook at AUD30 million, Rochedale AUD27 million, and Peregian Springs Ridges AUD13 million.

On the inventory spend side AUD110 million, or 90%, is consumed by six projects. Those being Gasworks Stage 2 AUD35 million, Point Cook AUD30 million, Rochedale AUD27 million, Aerial AUD24 million, Luxe AUD9 million and Peregian Springs Ridges AUD6 million.



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The financing outflows are made up of two parts; interest payments of AUD41 million and dividend payments net of a DRP of AUD7 million. The other investment of AUD7 million relates to the reinvestment of the PSA fees for the asset management of RVG.

This provides the Group with sufficient liquidity of AUD126 million at 30 June 2012 with Aerial to settle in FY13. We have no major facilities expiring until June 2013. Any further investment property sales will increase the surplus capacity.

Turning to the capital management metrics slide. Gearing has increased -- gearing has slightly increased to 30.9% during the period due to the construction of the three Built Form projects namely Gasworks, Aerial and Luxe.

The ICR has plenty of headroom at 4.2 times.

Facility agreements have been executed with the lenders to extend the development MOF and property trust facilities for a further three years from June this year. Terms have been agreed for a new AUD80 million facility for FPG.

The weighted average borrowing cost continues to improve as the out of the money hedges mature and the Group continues to refinance the facilities on better terms. The current cost is 8.3%.

The weighted average debt and hedge maturity are now more closely aligned at 2.8 years and 3.4 years respectively. We are back within our preferred hedge range of 60% to 80% and we expect the Group to move to the lower end of this range over the medium term. All covenants have been met.

With that, I'll pass you back to Peter.

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### **Peter Brown - FKP Limited - Managing Director and CEO**

Thank you David. And look just to conclude the presentation, in terms of strategy and a bit more emphasis in terms of outlook. The focus on the -- executing the current projects and plans we talked about two years ago and you know restarting the engine.

When I look at FKP today I think everything, bar Currumbin, is actually restarted, even Vero where we had that expiry is under construction. We have everything in South East Queensland as I said, with the exception of Currumbin, either in the market or under construction, similarly here in Sydney, and similarly in Victoria. So that engine is well and truly restarted.

It's fair to say the market is not quite as good as it is, but you have to take the good with the bad. And the one thing about the bad is you know it will turn good, especially when you look at the supply demand credentials of the Australian residential market.

But in saying that I think we are more, as I said earlier, more than cutting our own share of that. In fact we're cutting more than our own share of that market and then doing that without discounting, which of course holds those strong margins up going forward, which stands this Company in very good shape with that engine restarted as we just focus on delivering. Really it's about the development and it's the marketing and the sales pipeline, the whole Company is now geared into delivering on that and that's what we focus on.

Further to that of course is the retirement, retirement a very exciting area. As I said look at what's happening in the US, look at even what's happening in New Zealand. It's just not happening here in Australia, we want to lead the way and see it happening. As a property market goes there is no more secure property market than retirement because no one can help getting older, so there is nothing more certain. And the fact that retirees need and want to live in mature metropolitan area really gives us the real estate that is second to none, and now we just have to come up with the right model for the future and the right ownership structure to support that going forward.

The market sentiment does continue to impact on the trading conditions. I've talked about it. The observations I have made, it is very much sentiment based. It's not a lack of credit provision to buyers and it's certainly not oversupply, it is purely one of sentiment. And one thing I have learnt with sentiment it can turn around very quickly, as markets do tend to follow very quickly any sort of shift in terms of sentiment.

Underlying profit impacted by the Aerial delay. As I said the Board has chosen not to include Aerial, there is a little bit of uncertainty as to actually when it will be delivered. It is being externally delivered which is not part of our normal integrated business model. But it is fairly close. But as we did last year with Rochedale, the



Board has decided we'll not include it in terms of our forecasting because I don't think -- well me for one, I don't want to live under that pressure of the next few months of everyone asking me how it's going.

Interestingly if you look at what that does to our result, and you take the upper end, we are actually on target. If Aerial comes in this year we're on target to meet last year's profit level which, again, is really the reason I say I think a very credible result in what we have.

If we don't do that, if we don't deliver in this financial year which again we're forecasting we won't, that means it's a good start to the next financial year. With that in mind, the Board forecast a dividend this year of AUD0.033, and the Board for the full year of 2012 -- the Board is holding that forecast, given that the full expectation is that the settlements of Aerial will be in before the actual dividend is paid out. So with the first half being AUD0.014 per security, that's looking at a AUD0.019 per security estimate for dividend in the second half of this year.

With that I'll conclude the main part of the presentation, and I'll open it up to questions.

## QUESTION AND ANSWER

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### Operator

Your first question comes from Paul Checchin of Macquarie, please ask your question.

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### Paul Checchin - Macquarie Securities - Analyst

Thank you. I've got a few questions actually, and the first one just relates to that comment Peter in relation to the outlook for fiscal year '12. At the full year result you were saying you were going to deliver profit, an increase in fiscal year '12 on fiscal year '11. Fiscal year '11 was AUD121 million. If you then take out the AUD17 million for Aerial you end up with AUD104 million, and your guidance range now you know at the low end is AUD92 million. So I'm just wondering how you're saying you're still on track with the exception of Aerial?

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### Peter Brown - FKP Limited - Managing Director and CEO

I don't think I actually said we're still on track. What I did say -- if you look at slide 20 Paul and look at the upper end of our forecast range of 104, add to that the Aerial profit that we're saying we're not forecasting, it's actually right on our profit of last year.

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### Paul Checchin - Macquarie Securities - Analyst

Yes, right. And so why is there such a big range now as well? So what -- where's the other -- kind of what's the other aspect of the business that's been below your expectation, such as the low end of that guidance range is 91.9.

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### Peter Brown - FKP Limited - Managing Director and CEO

David do you want to answer that?

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### David Hunt - FKP Limited - CFO

I think if you look right across our business and where the market is at the moment Paul there is still uncertainty around a number of the residential projects and exactly what it will deliver for 30 June.



And also, as you are aware, we include in our underlying result the operating part of our retirement fair value, so we have both that coming through from our on balance sheet assets and also RVG. There's uncertainty around exactly where that will land, and we don't know that until July this year when we do the roll-- up. So there is a little bit of uncertainty there which then is why we put the range there between FY10 and FY11 before adjusting for Aerial.

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**Paul Checchin - Macquarie Securities - Analyst**

Okay, alright. Second one, just in relation to your interest cover ratios, so slide 42, the interest cover ratio on your retirement syndicate is now incredibly close to your gearing covenant 1.8 versus a covenant requirement to be over 1.75 times.

What are the expectations? I think you even said it David, but you were talking rather quickly and I couldn't get the number down, but your expectations for the cash flow from retirement business in the second half of 2012 relative to the first half of '12.

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**David Hunt - FKP Limited - CFO**

AUD20 million we're expecting to come through in the second half. That's the net cash flow which includes also the development spend as well. But if you looked at the DMF side we'd probably be looking at well over AUD30 million coming in, in the second half.

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**Paul Checchin - Macquarie Securities - Analyst**

And the actual covenant does it take into account -- what did you just say, 20?

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**David Hunt - FKP Limited - CFO**

The 30.

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**Paul Checchin - Macquarie Securities - Analyst**

You're using the 30?

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**David Hunt - FKP Limited - CFO**

Yes. It's a rolling 12 month covenant as well.

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**Paul Checchin - Macquarie Securities - Analyst**

Yes. And so with the 17 in the first half, and so where do you see that interest cover ratio sitting for the full year?

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**David Hunt - FKP Limited - CFO**

We see it, if we meet our forecast it will be in the low 2 times.

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**Paul Checchin - Macquarie Securities - Analyst**

Uh hum. Then just in relation to that liquidity slide you put up, I'm just wondering of that surplus capacity -- actually the current capacity of AUD2.8 million, how much of that can you actually draw today?



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**David Hunt - FKP Limited - CFO**

That's on the next slide, slide 18 and available facilities half way down AUD77 million.

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**Paul Checchin - Macquarie Securities - Analyst**

Right so I guess of -- so I guess the difference between the two is AUD131 million so of your surplus capacity at the end of the year you say it's AUD126 million but actually you can't draw AUD131 million of it, so does it mean you're actually AUD5 million short.

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**David Hunt - FKP Limited - CFO**

No, as you spend money on projects you get credit for that. So it's not a one for one relationship.

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**Paul Checchin - Macquarie Securities - Analyst**

Okay, I may need to follow that one up with you after this call.

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**David Hunt - FKP Limited - CFO**

Okay, Paul.

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**Paul Checchin - Macquarie Securities - Analyst**

Thank you.

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**Operator**

Your next question comes from Jackie Tin of Citigroup. Please ask your question.

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**Jackie Tin - Citigroup - Analyst**

Hi, I was just wondering if your builder needs to pay delayed construction fees for the delay in Aerial and whether that's in your guidance as well?

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**Peter Brown - FKP Limited - Managing Director and CEO**

The expectation, Jackie, is there'll be no financial impact on FKP if there is any delay. There obviously is damage payments provided for in the contract and we obviously will be exercising those. I should emphasise the main focus that we are, we won't be able to pocket, the main focus will be on the quality and we need to make sure that a very high level of quality is delivered.

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**Jackie Tin - Citigroup - Analyst**

Okay and I think initially you had said in the past that Aerial proceeds were going to be put towards the Milton development. Just wondering if that is likely to slip as well?

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**Peter Brown - FKP Limited - Managing Director and CEO**



I think if you look at the -- it's actually -- it's not designed this way, Jackie. But it's actually tying in exactly perfectly. If you look at where our pre-sales are heading in terms of Milton, I think the timing will be about right. If you think it through you don't actually spend an awful lot of money when you do commence. So what I am saying is construction starts early in financial year 2013 which ties in with Aerial settlements coming through. Which is I think consistent going right back to where we raised equity two and a half years ago and a lot of people saying, you know you can't fund your whole pipeline.

Well no we can't fund our whole pipeline if we want to develop it all at once, but what we do need to do is do it in a logical way and that's certainly what we're doing.

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**Jackie Tin - Citigroup - Analyst**

Are you still targeting financial year '14 for Milton?

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**Peter Brown - FKP Limited - Managing Director and CEO**

Yes we will be.

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**Jackie Tin - Citigroup - Analyst**

Okay and what's the construction time frame there?

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**Peter Brown - FKP Limited - Managing Director and CEO**

Look, it's probably around about 20 months.

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**Jackie Tin - Citigroup - Analyst**

Okay.

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**Operator**

Your next question comes from Anthony Cay of Perpetual. Please ask your question.

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**Anthony Cay - Perpetual - Analyst**

I think Jackie's just sort of covered my question. Can I just understand the whole Aerial thing is a delay in construction, it's nothing else? The whole issue with Aerial it's just a delay in construction is that right?

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**Peter Brown - FKP Limited - Managing Director and CEO**

Exactly.

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**Anthony Cay - Perpetual - Analyst**

Okay, thank you.

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**Operator**



Your next question comes from Simon Garing of Merrill Lynch. Please ask your question.

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**Simon Garing - Merrill Lynch - Analyst**

Hey just on the strategic review of the retirement outlook, was it 100% sure? Were you referring to potentially changing the whole DMF structure and going to a rental model?

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**Peter Brown - FKP Limited - Managing Director and CEO**

I prefer to wait until our presentation in two or three months on that, Simon. What I will do though is I will say now that we're not looking at turning that whole DMF model totally on its head. I think it's going to be the align of -- it's probably going to be more aligned with extra offerings on top of that DMF model.

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**Simon Garing - Merrill Lynch - Analyst**

So being flexible with the purchaser?

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**Peter Brown - FKP Limited - Managing Director and CEO**

Correct.

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**Simon Garing - Merrill Lynch - Analyst**

Or renter if not a purchaser?

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**Peter Brown - FKP Limited - Managing Director and CEO**

Well there's two sides to it. There's what you're talking about there is the financial model and I can understand why that's your main focus. But there's two issues, one is the financial model, you know rental as against DMF or any other in-between variant which do exist. The second one is the actual product offering. You know what you have in terms of retirement, I talked about the entry age moving to close to 80. Now as everyone lives longer what's going to come through is the frailties are going to come through. So what that means is retirees are going to need more services and at the same time the Government's running out money in terms of trying to fund those services in terms of their future.

So I believe what you're going to see over the next couple of years is a massive revolution in terms of retirement businesses. You don't really need to look that much further than what's happening in North America to see that flowing through.

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**Simon Garing - Merrill Lynch - Analyst**

So we have that here, I assume you're talking about where the RSL provide the service of, you know, offsite onsite, you're talking about potentially JV'ing with a health provider?

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**Peter Brown - FKP Limited - Managing Director and CEO**

I, look potentially. You know you shouldn't think that FKP aren't in health. We do run three nursing homes. It is an area we're in. But you know there's a whole combination of factors coming together. You know some very simple things like dementia. You know if you need to be treated for dementia you have to go into a nursing home and not everyone that gets dementia is old. So there's a lot of provisions or services that aren't provided in Australia that are provided in areas such as North America.



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**Simon Garing - Merrill Lynch - Analyst**

Then the second part of the strategic review question I've got is, with the three different owners of the three different portfolios that you manage. What's the likelihood that it all gets merged?

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**Peter Brown - FKP Limited - Managing Director and CEO**

I think ultimately it will all be merged. I don't think -- I'm not at this stage looking at a big three-way merger in one go. I think that would be a bit aggressive. I'd certainly like to think that there's going to be a two of the three merger in the foreseeable future.

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**Simon Garing - Merrill Lynch - Analyst**

And on that there's been some comments in the press and obviously share prices had a good rally from the start of the year. Are you able to provide any more insights as to the approaches that have or have not been made to the Company?

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**Peter Brown - FKP Limited - Managing Director and CEO**

The number of approaches, probably you know I don't think I've ever said the word approach although I have read things like that in the article. We're in this sector. We're a leader in this sector. The sector is fairly immature and the sector is going to mushroom there is no doubt about that and we're not even talking about the Baby Boomers coming through. The whole world has this problem except probably a few South American countries.

What is happening in areas like China they come to us because they want to understand the model. It's not new, you know you'll recall pre-GFC we were invested in China and we were looking at JV opportunities. So our links, not just through our major shareholder but also from the work we did before the GFC are very deep in China. We are talking about some ventures in China. We do have some opportunities. Where the real opportunity lies in China is the insurance companies.

I don't know if everyone has followed it but the insurance companies, China is going to have the biggest ageing population issue of all. The insurance companies are really being motivated you know financially by the Government to get into this area. So there is dialog going with a number of joint venture type opportunities in China. That obviously could lead to opportunities back here in Australia. Similarly with our business in New Zealand we are talking to various investors and operators in New Zealand, but also in the US with our business there.

That has two impacts. It has the potential in terms of participating in any consolidation that might happen, but it's also IP in terms of the whole product offering and what's going to happen in the future. So that's really down, you know we've had our two hands tied behind our back with this because of the whole RVG negotiation. I know it's been frustrating for everyone, but we're out of it now and now we move forward. That's why it really is about moving forward this year.

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**Simon Garing - Merrill Lynch - Analyst**

So again as part of the strategic review is FKP wedded to owning this business? It sounds like the more I listen to you, you are wedded to this business as a growth platform for FKP?

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**Peter Brown - FKP Limited - Managing Director and CEO**

FKP has always been wedded to retirement. We're a great believer in retirement. What we're talking about is the actual structure of that ownership and consolidation.

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**Simon Garing - Merrill Lynch - Analyst**

Thanks, Peter.

**Operator**

There are no further questions at this time. Back to you.

**Peter Brown - FKP Limited - Managing Director and CEO**

Okay well with that I thank everyone for their time and wish everyone a good day. Thank you.

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