# Lifestyle COMMUNITIES

## Growing Through Evolution

**Results Presentation Year Ended 30th June 2016**

18th August 2016

# CONTENTS



# APPENDIX



This document should be read with the Disclaimer on page 45

# OVERVIEW BUSINESS SNAPSHOT

## Business Snapshot

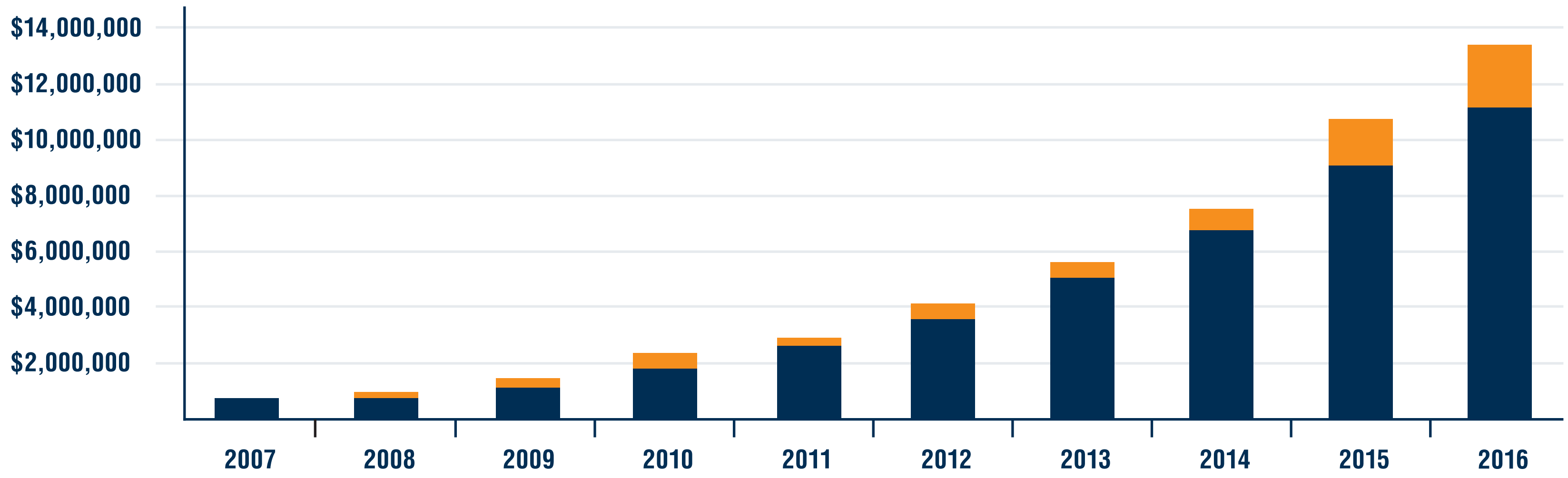
- Founded in 2003
- Develop and manage land lease communities which generate long-term sustainable revenue streams
- Focused on affordable housing for the over 50s market
- 2,445 sites either under development or management
- Residents own their home and lease the land upon which their home is located

## Financial Summary

| | FY2016 ($ Million) | FY2015 ($ Million) |
|---|---|---|
| Net profit after tax attributable to shareholders | $19.3 | $16.7 |
| Underlying net profit after tax attributable to shareholders | $16.9 | $16.7 |
| Total assets | $222.5 | $179.6 |
| Equity | $131.3 | $113.8 |
| Dividends (interim and final) | 2.5 cents per share | 1.5 cents per share |
| Net debt | $45.2 | $23.6 |
| Net debt to equity ratio | 25.6% | 17.2% |

## 11 years of growing annuity income streams

Site Rental Fees (gross) Deferred Management Fee (cash)




| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total number of homes settled (Cumulative) | 100 | 138 | 202 | 305 | 412 | 546 | 695 | 906 | 1,146 | 1,348 |
| Number of resales attracting a DMF | - | - | 4 | 11 | 8 | 11 | 10 | 23 | 34 | 52 |

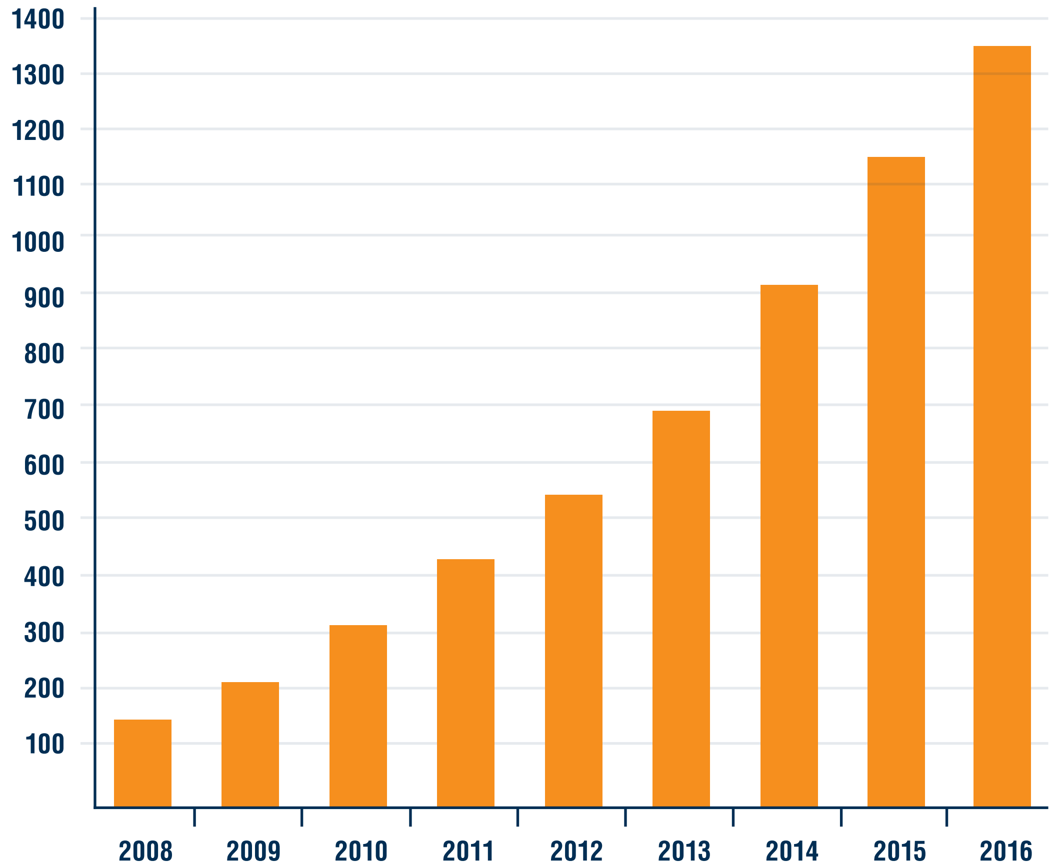
# OVERVIEW FY2016 HIGHLIGHTS

## A proven business model structured for sustainable growth

### Business Snapshot

- Solid year of settlements (202) and sales (221)
- 1,348 occupied home sites
- 1,995 homeowners
- Portfolio of 2,445 home sites
- 52 resale settlements during the year
- New five year $80 million debt facility with Westpac bank
- Contracted land at Bittern (on Melbourne's Mornington Peninsula) and Ocean Grove (on Geelong's Bellarine Peninsula)
- Profit after tax attributable to shareholders increased to $19.3 million compared to $16.7 million in the prior year
- Dividend of 2.5 cents per share fully franked (including 1.0 cent per share interim paid and 1.5 cents per share final declared)

### Home sites (annuities) under management[1]




**Lifestyle Communities had another positive result during FY2016**

Notes: (1) Represents gross numbers not adjusted for joint venture interests
(2) Settled, under development or subject to planning
(3) Settlement of purchase subject to planning approval

# OVERVIEW PORTFOLIO SNAPSHOT 30 JUNE 2016

## Lifestyle Communities' portfolio continues to grow

| Communities | Total home sites in communities | Home sites sold & occupied | Home sites sold & awaiting settlement | Home sites occupied or sold and awaiting settlement # | % |
|---|---|---|---|---|---|
| **Existing Communities – Sold out** | | | | | |
| Brookfield at Melton | 228 | 228 | - | 228 | 100% |
| Seasons at Tarneit | 136 | 136 | - | 136 | 100% |
| Warragul | 182 | 182 | - | 182 | 100% |
| Casey Fields at Cranbourne(1) | 217 | 217 | - | 217 | 100% |
| Chelsea Heights(1) | 186 | 186 | - | 186 | 100% |
| Hastings | 141 | 141 | - | 141 | 100% |
| **Existing Communities – Under construction** | | | | | |
| Shepparton | 268 | 149 | 42 | 191 | 71% |
| Lyndarum at Wollert | 154 | 46 | 35 | 81 | 53% |
| Geelong | 164 | 36 | 43 | 79 | 48% |
| Officer | 151 | 27 | 66 | 93 | 62% |
| **New Communities – Awaiting commencement** | | | | | |
| Berwick Waters | 220 | - | 31 | 31 | 14% |
| Bittern(2) | 208 | - | - | - | - |
| Ocean Grove(2) | 190 | - | - | - | - |
| **Total Home Sites(3)** | **2,445** | **1,348(4)** | **217(5)** | **1,565** | **64%** |

Notes:
(1) Represents 100% of the development of which Lifestyle Communities will share 50%
(2) Commencement of construction subject to planning approval and contract becoming unconditional
(3) Lifestyle Communities will have an economic interest in 2,243 home sites
(4) Currently collecting annuity income (rent and DMF income) on these sites
(5) Represents sites in the sales bank awaiting settlement as at 30 June 2016

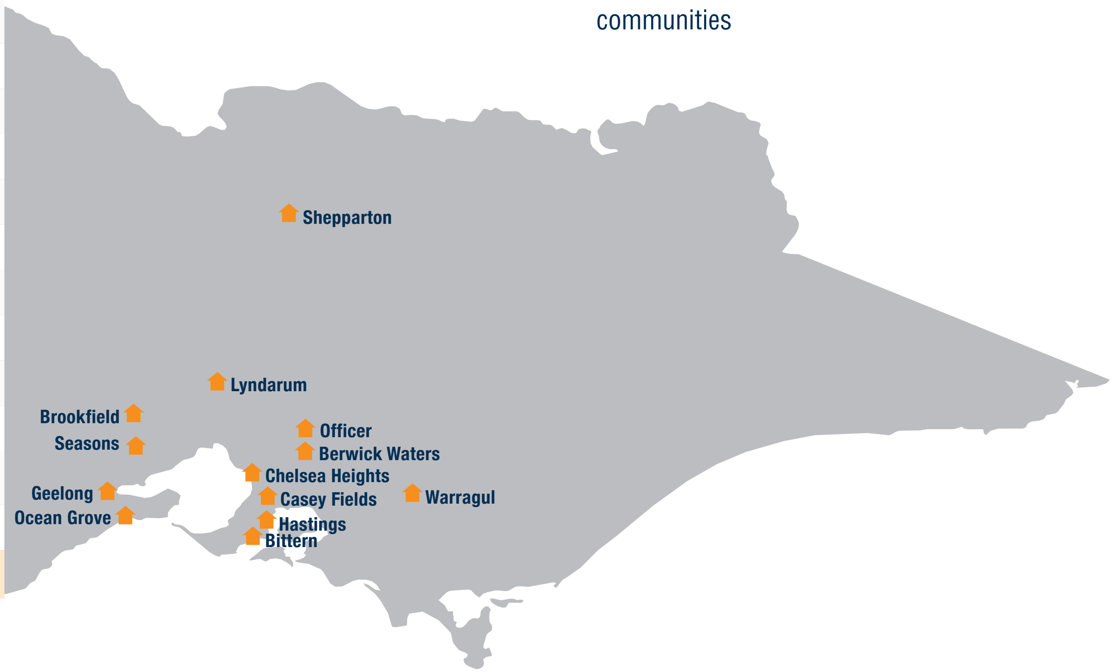
# OVERVIEW COMMUNITY LOCATIONS

## 13 communities in planning, development or under management

| Community | Homes | Settled |
|---|---|---|
| Brookfield at Melton | 228 | 100% |
| Seasons at Tarneit | 136 | 100% |
| Casey Fields at Cranbourne | 217 | 100% |
| Chelsea Heights | 186 | 100% |
| Warragul | 182 | 100% |
| Hastings | 141 | 100% |
| Shepparton | 268 | 56% |
| Lyndarum at Wollert | 154 | 30% |
| Geelong | 164 | 22% |
| Officer | 151 | 18% |
| Berwick Waters | 220 | - |
| Bittern[1] | 208 | - |
| Ocean Grove[1] | 190 | - |
| | **2,445[2]** | **55%** |

Correct as at 30 June 2016

Notes: (1) Commencement of construction subject to planning approval and the contract becoming unconditional
(2) Represents gross numbers not adjusted for joint venture interests at Cranbourne and Chelsea Heights




## Focus remains in Victoria

### Victoria provides:

- Favourable planning legislation
- Better access to zoned, flat land for development
- Lowest saturation of land lease communities of any state
- Balanced state legislation for the management of communities

# SECTION 2
# FINANCIAL & OPERATIONAL RESULTS

# 2.1 FINANCIAL RESULTS

## 11 Years of Growing Annuity Income Streams

### There are two components to the annuity stream:

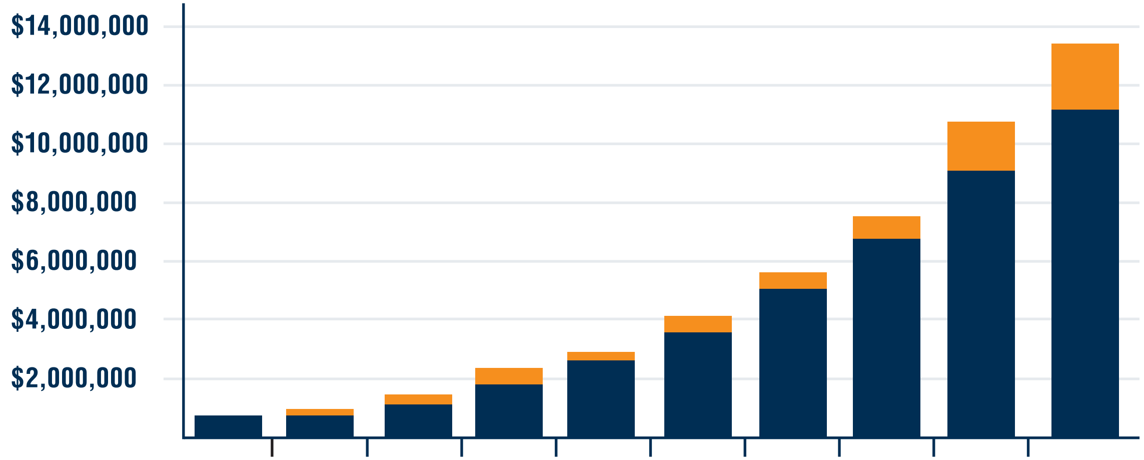
**1. Site Rental Fee**

- Approximately $167 per single and $193 per couple per week per home
- Indexed at greater of CPI or 3.5% p.a.
- Gross rental income for FY2016 was $11.1 million

**2. Deferred Management Fee**

- Calculated as a scaled percentage of the re-sale price
- Scaling is a function of tenure and is capped at 20% of the re-sale price after 5 years of ownership
- Revenue includes selling and administration fees
- In established communities, approximately 10% - 12% of homes are estimated to re-sell in any given year as the age profile of residents matures
- 52 resales provided DMF income of $2.5 million in FY2016(1)

## Annuity Income




| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
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| Total number of homes settled (Cumulative) | 100 | 138 | 202 | 305 | 412 | 546 | 695 | 906 | 1,146 | 1,348 |
| Number of resales attracting a DMF | - | - | 4 | 11 | 8 | 11 | 10 | 23 | 34 | 52 |

Site Rental Fees (gross) Deferred Management Fee (cash)

**Annuity income will continue to increase through new home settlements, rental increases and resales of existing homes**

Notes: (1) Inclusive of selling and administration fees
(2) Represents gross numbers not adjusted for joint venture interests

## 2.2 SALES AND SETTLEMENTS

# Referrals provided approximately one in three sales

### Sales Commitments

- 221 new home sales in FY2016[1]
- Shepparton continued to perform well during the year achieving 49 sales (compared to 54 in FY2015)
- Lyndarum and Geelong sold 39 and 51 homes respectively during the year in their first full year of operations. Both communities recorded a spike in sales upon opening the clubhouse in the middle of the year with sales in 2HFY2016 doubling against sales in 1HFY2016
- Officer continued to sell well achieving 51 sales during the year; total sales are now 93, 16 months after the project was launched
- Berwick Waters has achieved 40 sales in the four months since the project was launched in April 2016

### Settlements

- 202 settlements in FY2016[1]
- 51 settlements at Shepparton, 43 at Lyndarum, 36 at Geelong, 27 each at Officer and Chelsea Heights, 14 at Hastings and two each at Casey Fields and Warragul as these projects are now completed
- First settlements at Geelong occurred in July 2015 and Officer in April 2016. The first settlement at Berwick Waters is expected in the last quarter of FY2017

Notes: (1) Lifestyle Communities has an economic interest in 221 new home sales and 188 settlements after allowing for non-controlling interests

# 2.3 DEBT RE-FINANCING

## New corporate facility provides greater flexibility to plan the construction of new communities

- In August 2015 the Company entered into a five year, $80 million facility with Westpac to replace existing core and development facilities
- New facility provides greater flexibility, ease of use and is resulting in lower finance costs
- Long-term nature and flexibility of new facility provides scope to opportunistically increase gearing for short periods if land opportunities become available
- As at 30 June 2016 total utilisation was $48.5 million, with $33.6 million allocated to development debt (interest capitalised to inventory), $12.4 million to pre-development debt (interest expensed) and $2.5 million overdraft. Development debt is utilised for inventory (inventory was $49.7 million as at 30 June 2016) and pre-development debt is mainly used for undeveloped land (investment properties comprised undeveloped land of $29.8 million [including $10.3 million of unsettled Berwick Waters land]

## PREVIOUS POSITION


**COMBINED FACILITIES OF $48 MILLION AT 30 JUNE 2015**

## NEW POSITION


**NEW CAPACITY OF $80 MILLION AS OF AUGUST 2015**

# 2.4 PROFIT & LOSS

## Another solid year of profitability

- Net profit attributable to shareholders up 16% to $19.3 million (on an underlying basis up 2% to $16.9 million after adjusting for favourable investment property valuations)
- Gross profit from home settlements reduced to $11.8 million due to a 17% reduction in settlements as a result of project timing and lower margins
- Rental income up by 21% to $11.1 million and cash deferred management fees up by 57% to $2.5 million (inclusive of $0.5 million selling and administration fees)
- Community management expenses increased predominantly due to opening of new communities
- Development expenses increased by 13% due to increased marketing to develop brand in new regions, launching Berwick Waters and write-off of Rosebud costs
- Finance costs reduced due to the refinance of debt facilities in August 2015
- Corporate overheads increased due to: debt re-financing costs; staff redundancy and retirement costs; and increased staff resources to provide additional organisational capability for medium term growth

| Profit loss highlights | FY2015 ($'000) | FY2016 ($'000) | % Movement |
|---|---|---|---|
| Home settlement revenue | 66,344 | 54,877 | ▼17% |
| Cost of sales | (47,512) | (43,080) | ▼9% |
| **Gross profit** | **18,832** | **11,797** | **▼37%** |
| Home settlement margin | 28% | 21% | ▼7% |
| **Management & Other Revenue** | | | |
| Rental | 9,160 | 11,075 | ▲21% |
| Deferred management fee | 1,597 | 2,509 | ▲57% |
| **Total management and other revenue** | **12,445** | **15,274** | **▲22%** |
| Fair value adjustments | 15,051 | 18,925 | ▲26% |
| Development expenses | (3,690) | (4,176) | ▲13% |
| Management expenses | (4,414) | (5,800) | ▲31% |
| Corporate overheads | (3,959) | (4,872) | ▲23% |
| Finance costs | (1,606) | (843) | ▼48% |
| Accelerated finance costs due to re-financing | (2,421) | - | ▼-% |
| **Net profit before tax** | **29,098** | **28,553** | **▼2%** |
| **Net profit after tax** | **21,875** | **20,616** | **▼6%** |
| Profit is attributable to: | | | |
| Non-controlling interests | 5,222 | 1,347 | ▼74% |
| **Members of the parent** | **16,653** | **19,269** | ▲16% |

## 2.5 BALANCE SHEET

### Balance sheet remains strong

- Gearing (net debt to net debt plus equity) was 25.6% at year end
- Total bank facility of $80.0 million of which $48.6 million was utilised at year end
- Inventories have increased to $49.7 million due to the transition from projects in 'run-off' phase to projects that are at or near to their peak inventory levels as the intense civil infrastructure phases have been completed in FY2016
- Trade and other payables includes $10.9 million payable upon settlement of land at Berwick Waters expected in 1HFY2017

| Balance sheet highlights | FY2015 ($'000) | FY2016 ($'000) | % Movement |
|---|---|---|---|
| Cash and cash on deposit | 12,999 | 3,352 | |
| Inventories | 30,644 | 49,746 | |
| Investment properties | 132,757 | 163,677 | |
| **Total assets** | **179,647** | **222,472** | ▲24% |
| Bank overdraft | - | 2,558 | |
| Trade and other payables | 5,357 | 14,365 | |
| Current tax payable | 1,807 | 361 | |
| Interest-bearing loans and borrowings | 36,601 | 46,000 | |
| Deferred tax liabilities | 21,690 | 27,321 | |
| **Total liabilities** | **65,879** | **91,167** | ▲38% |
| **Net assets** | **113,768** | **131,305** | ▲15% |
| Gearing(1) | 17.2% | 25.6% | |

**Balance sheet has capacity to enable the acquisition of a new site at least every 12 months**

Notes: (1) Calculated as a ratio of net debt to net debt plus equity (net debt includes cash, cash on deposit and bank overdraft)

# 2.6 CASH FLOW

## A year of project investment for future harvest

- Cash flows from operations reduced to ($14.2) million, adjusted cash flows from operations (excluding project capital expenditure) reduced to $9.6 million
- Payments to suppliers and employees increased by $12.8 million to $84.5 million mainly due to a $6.3 million increase in project capital expenditure and a $15.5 million increase in housing construction. Inventory levels have been increased to target levels to match increased sales activity
- Income tax was paid in respect of FY2015 (final) and FY2016 (instalment) with the large year on year increase due to a more appropriate FY2016 instalment rate

| Cash Flow highlights | FY2015 ($'000) | FY2016 ($'000) |
|---|---|---|
| Receipts from customers | 85,160 | 76,455 |
| Payments to suppliers and employees[1] | (63,099) | (84,948) |
| Income taxes paid | (1,608) | (3,753) |
| Net interest payments | (4,047) | (1,941) |
| **Cash flows from operations** | **16,406** | **(14,196)** |
| Project capital expenditure (civil and facilities infrastructure) | 17,386 | 23,746 |
| **Cash flow from operations (excluding project capital expenditure)** | **33,792** | **9,550** |
| Purchase of PP&E | (614) | (1,044) |
| Proceeds/(payment) from/for term-deposit | 1,000 | 5,000 |
| Purchase of investment properties | (7,008) | (1,155) |
| **Cash flows from investing activities** | **(6,622)** | **2,801** |
| Net movement in borrowings | 462 | (9,339) |
| Proceeds from exercise of options | 2,034 | 795 |
| Distributions paid to non-controlling interests | (7,038) | (3,409) |
| Dividends paid | - | (2,595) |
| **Cash flows from financing activities** | **(4,542)** | **4,190** |
| **Net cash flows** | **5,242** | **(7,209)** |
| Cash as at the beginning of the year | 2,757 | 7,999 |
| **Cash as at the end of the year (excluding funds on deposit)** | **7,999** | **794** |
| Add cash on term deposit | 5,000 | - |
| **Total cash at the end of the year** | **12,999** | **794** |

Notes: (1) Due to Lifestyle Communities' accounting policies and legal structure, payments to suppliers and employees includes all gross costs of infrastructure construction (i.e. civil works, clubhouse and other facilities). Under some other structures these costs may be classified as investing cash flows. Therefore cash flows from operations will be negatively impacted when Lifestyle Communities is in the cash intensive development phase of a community.

To assist with further understanding of cash flows, please refer to Appendix 4 for a detailed break-down of development and management cash flows per community for FY2016 and FY2015.

## SECTION 3
# OUTLOOK

# 3.1 OUTLOOK

## Lifestyle Communities capitalises on the solid base established for future growth

## Lifestyle Communities' model is driven by affordability, the aging population and the emerging baby boomer

- Emerging baby boomer driving increased customer interest
- Approximately one in three of sales are coming from customer referrals
- Settlements in FY2017 expected to be in the range of 250 to 270 settlements
- The increase in settlements, coupled with an expected increased contribution from community management, is expected to result in a material increase in profit in FY2017
- Expect that dividends in FY2017 will be higher than FY2016

## 3.2 SETTLEMENT GOALS - NEW SALES

# Settlements growing with increased sales rates and new projects

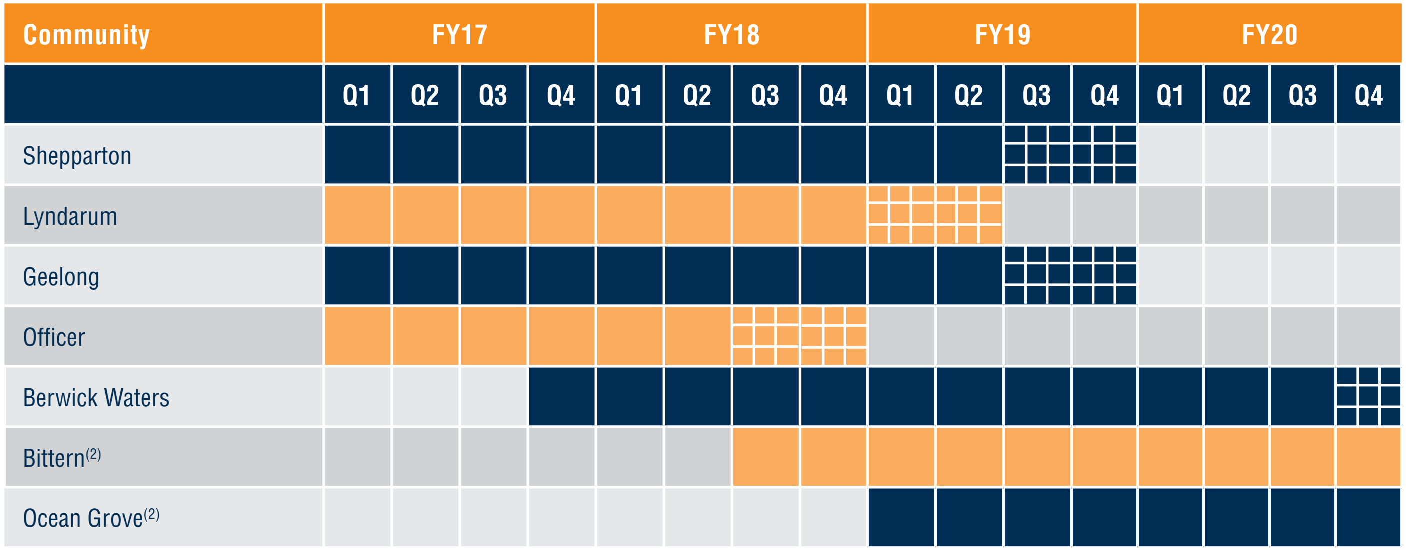
| | FY2016 settlements (actual) | FY2017 settlement range | FY2018 settlement range |
|---|---|---|---|
| **TOTAL** | **202** | **250-270** | **260-290** |
| Warragul | 1 | - | - |
| Casey Fields(1) | 2 | - | - |
| Shepparton | 51 | 40-55 | 40-55 |
| Chelsea Heights(1) | 27 | - | - |
| Hastings | 14 | - | - |
| Lyndarum | 43 | 45-55 | 45-55 |
| Geelong | 36 | 45-55 | 45-55 |
| Officer | 27 | 85-100 | 20-30 |
| Berwick Waters(2) | - | 10-25 | 60-80 |
| Bittern(2)(3) | - | - | 20-40 |

The settlement ranges above constitute a forecast for FY2017 and a projection for FY2018 which is indicative only. They are dependent on construction commencement dates for sites not yet commenced at Berwick Waters and Bittern, planning approval for Bittern and market conditions.

Notes: (1) Gross numbers not adjusted for joint venture interests
(2) Settlement goals dependent on construction commencement date
(3) Subject to planning approval

# 3.3 LIKELY SETTLEMENT PROGRAMME

## Currently 2,445 homes in the portfolio[1]




**Represents tail of development which is often a slower settlement rate**

Notes: (1) Settled, under development or subject to planning; gross numbers not adjusted for joint venture interests
(2) Subject to planning approval

The above timescale reflects current estimates of the settlement period for the existing developments. Settlement rates are a function of market conditions

# 3.4 DIVIDEND POLICY

## Lifestyle Communities intends to pay dividends out of operating cash flow from the community management business

## The growing level of free cash flow from the annuities provides the basis for increasing dividends over time

As a general principle, the Board of Lifestyle Communities intends to pay dividends out of post tax, operating cashflow generated from community management including:

- Operating cash flow generated from community management (net rental and DMF)
- Apportionment of corporate overheads attributable to management of the communities (currently 50%)
- Interest on average pre-development debt
- Tax attributed to the above
- A final fully franked dividend of 1.5 cents per share was declared in respect of FY2016. The dividend has a record date of 9 September 2016 and a payment date of 7 October 2016

**Interest on pre-development debt**

- The Company maintains an internal credit framework which prescribes the management and disciplines in relation to the $80 million facility
- Under this framework debt is allocated to development (individual projects) and pre-development debt; as at 30 June 2016 pre-development debt was $12.4 million (30 June 2015: $21.4 million)
- Interest on average pre-development debt is allocated against the 'dividend pool'

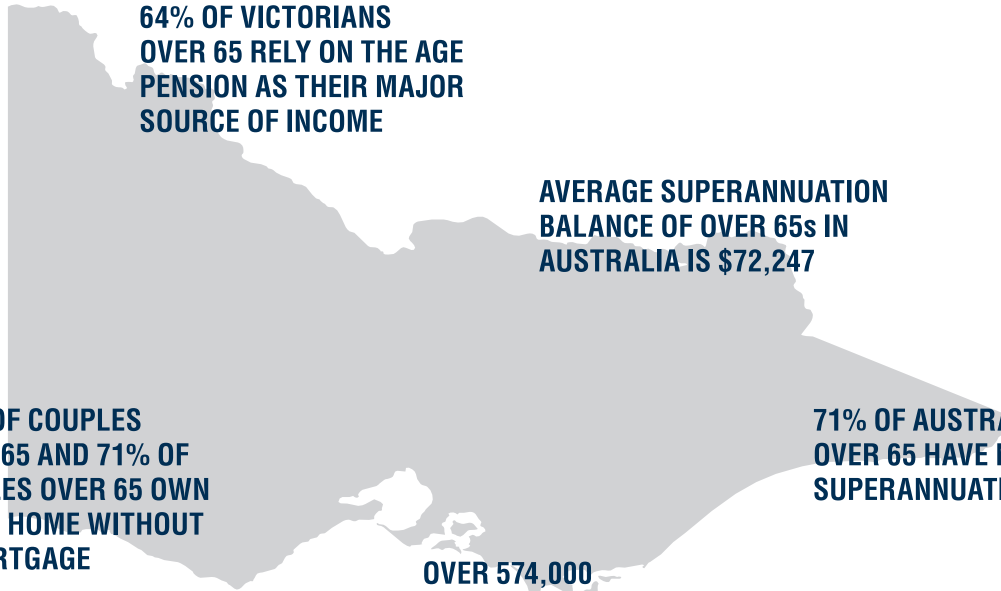
**Surplus franking credits**

- As at 30 June 2016 the franking account balance was $6.4 million

SECTION 4
# MARKET

# 4.1 THE MARKET

## Lifestyle Communities operates in an under-serviced sector of the over 50s housing market with a focus in Victoria



64% OF VICTORIANS OVER 65 RELY ON THE AGE PENSION AS THEIR MAJOR SOURCE OF INCOME

AVERAGE SUPERANNUATION BALANCE OF OVER 65s IN AUSTRALIA IS $72,247

82% OF COUPLES OVER 65 AND 71% OF SINGLES OVER 65 OWN THEIR HOME WITHOUT A MORTGAGE

71% OF AUSTRALIANS OVER 65 HAVE NO SUPERANNUATION

OVER 574,000 VICTORIANS ARE AGED OVER 70, A FURTHER 906,000 ARE AGED BETWEEN 50 AND 69

Source: ABS 2009-10 / 2011-12 / 2014

## The affordable housing market for over 50s in Victoria continues to grow

# 4.2 KEY MARKET DRIVERS

## Demographic changes are driving an increase in the size of the potential market

### Affordability

- More than 27% of total households (aged 65+) have net worth between $250,000 and $500,000
- 72% of people (over 65) retire on the pension. 64% of people (over 65) in Victoria rely on the pension as their main source of income
- Of the 82% of couples over 65 who own their home, superannuation represents less than 17% of their net worth

### The ageing population

- The number of people aged over 65 is projected to more than double between 2015 and 2055.
- Between 2001 and 2011 Victoria's over 55 population grew by 30%, compared to a total population increase of 15%

### Residential Land Lease Communities

- 2.1% of older Australians live in Residential Land Lease Communities compared to 4.5% in traditional retirement villages
- Average age of residents in Residential Land Lease Communities is 67 years compared to 81 years in traditional retirement villages.

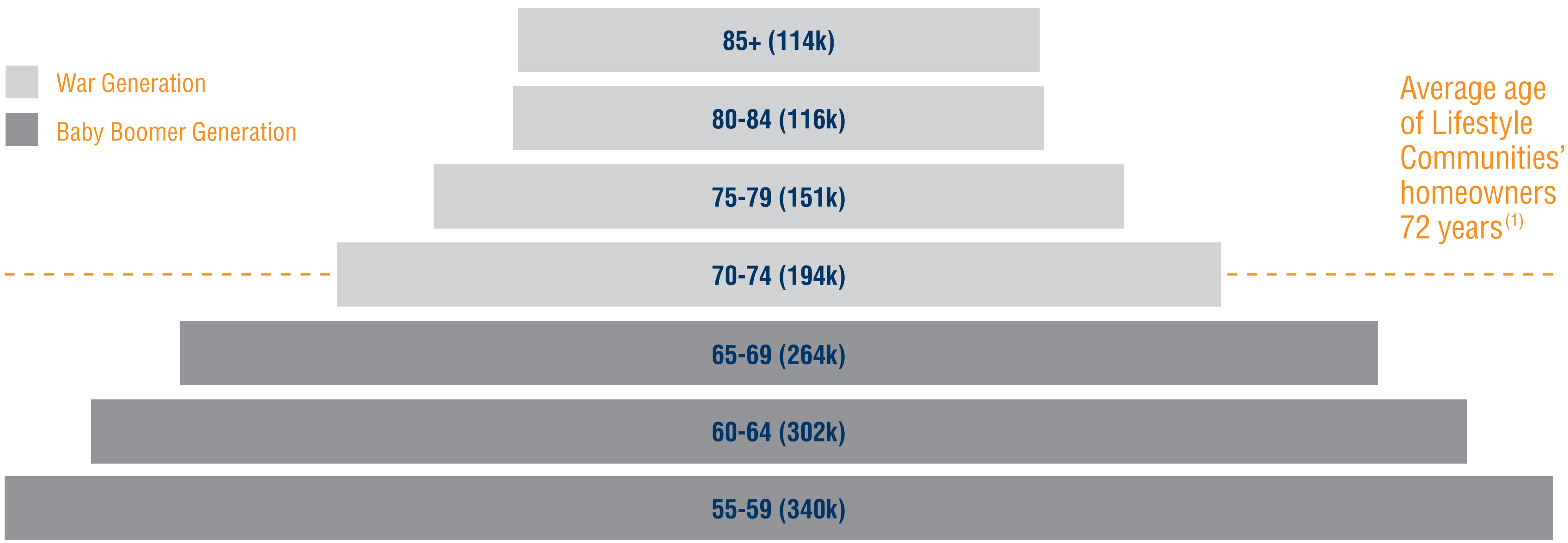
Source: ABS 2010-2012, 2015 Intergenerational Report, Housing Decisions of Older Australians-Productivity Commission Research Paper (2015)

## The Lifestyle Communities offer addresses these key market themes

# 4.3 VICTORIAN POPULATION GROWTH

**As at 30 June 2013 there were over 574,000 Victorians aged over 70 and over 906,000 aged between 55 and 69**

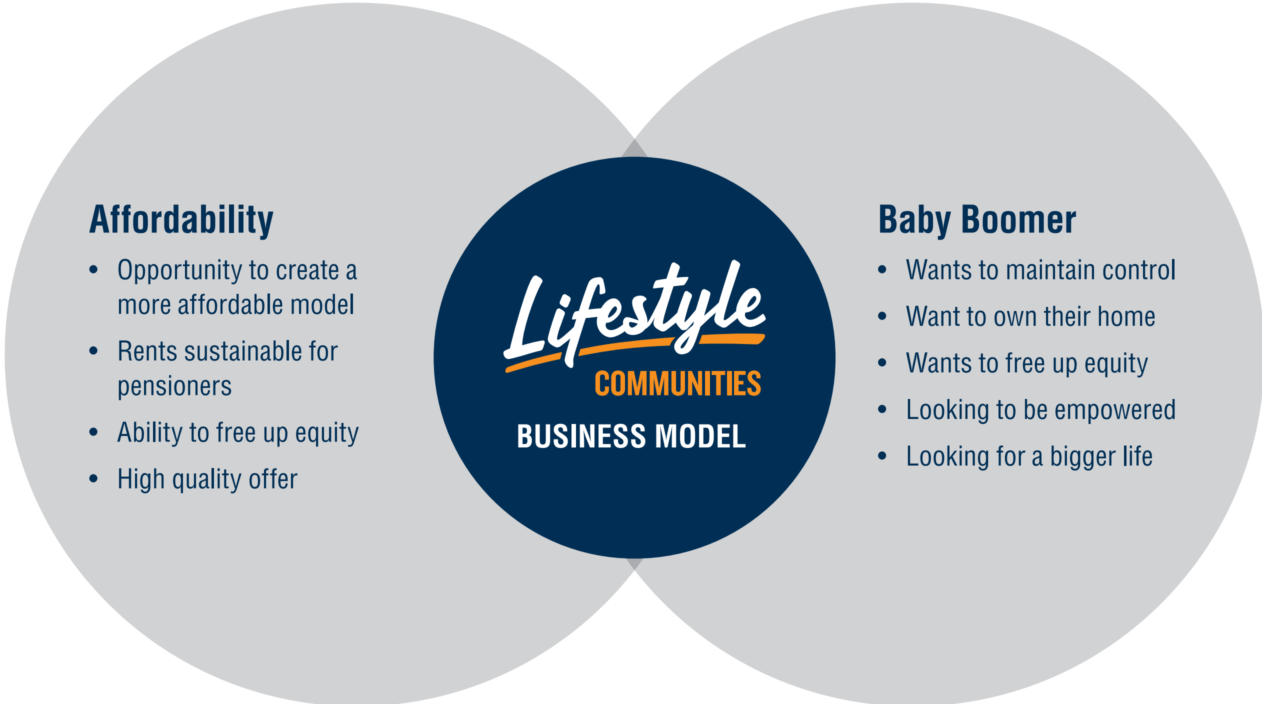
**Lifestyle Communities is well positioned to meet the needs of the baby boomer age wave**




Source: ABS 2014 Catalogue 3235.0
Notes: (1) As at 30 June 2016

## 4.4 THE EMERGING MARKET GAP

**The two key emerging trends come together to create the Lifestyle business model**




**Current housing solutions are not satisfying the new emerging customer**

## 4.5 RLLA

## Industry advocacy to promote land lease communities

- Member of the Residential Land Lease Alliance (RLLA) (James Kelly is the RLLAs inaugural chair)
- Represents the land lease industry to undertake lobbying, advocacy and industry development
- Funded through contributions from ten major players including Lifestyle Communities, Ingenia, and Gateway Lifestyle among others
- Lobbying in Canberra over last six months to:
    - provide better understanding of the industry
    - promote the role of land lease communities in the provision of affordable housing
    - advocate for a last home buyers incentive to down size
    - increase involvement in the broader debate on affordable housing

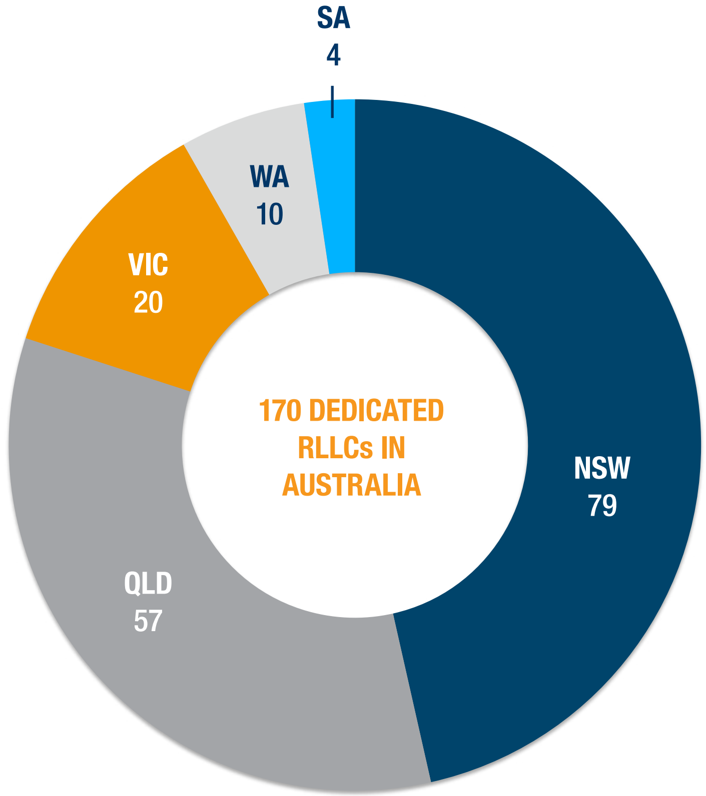
## Government is increasing their understanding of the land lease industry

RLLA
RESIDENTIAL LAND LEASE ALLIANCE

## 4.6 THE LAND LEASE INDUSTRY

## Our focus remains in Victoria

- There are 2,500 Residential Land Lease Communities (RLLCs) and caravan parks around Australia
- Of those:
  - 1,650 are pure tourist parks
  - 750 are mixed use parks with tourists and permanents
  - 170 are dedicated RLLCs
- NSW and QLD represent 82% of the industry
- Victoria has the lowest saturation of RLLCs per head of population
- Estimate that 70,000 people in Australia live in RLLCs and mixed use parks (compared to 190,000 people in retirement villages)




**Victoria has the lowest saturation of RLLCs in Australia**

Source: Manufactured Home Estates, Australian Market Review (2014)

# 4.7 CUSTOMER REFERRAL

## Every touch-point drives customer referral

- Implemented a focused strategy to try and lift the number of homeowner referrals for new sales
- Have developed an action plan for each of the 32 touchpoints we have with our homeowners
- Want to ensure that we surprise and delight the homeowner at every touchpoint


## Set organisational goal to increase referral rate


Notes: (1) For FY2016 settlements

## 4.8 MARKETING CHANNELS

### ABOVE THE LINE

- Press
- Radio
- Outdoor
- Website

### BELOW THE LINE

- Industry Expos
- Mass Direct Mail

**Evolved to**

Above the line:

- TV
- Press
- Digital

Below the line:

- Events
- Referral
- Digital
- CRM
- PR
- Sponsorship

- Our marketing strategy has continued to evolve to more below the line channels to drive visitation and conversion
- Implemented a new CRM system to enable better management of each customer relationship

**Evolved from mass marketing to targeted communications**

# 4.9 CASE STUDY: LIFESTYLE BERWICK WATERS LAUNCH

## Paradigm shift in how we launch a project resulting in increased pre-sales

## Pre-sales record for the Company with 40 pre-sales in first four months

### OLD PARADIGM

- Create collateral
- Launch/Open the door
- Above the line communication

### NEW PARADIGM

- Integrated VIP registration campaign
- Visualisation packs
- Exclusive launch with genuine benefits
- Priority weeks and events
- General public launch events
- Ongoing visitation and conversion strategies

SECTION 5
# BUSINESS MODEL

# 5.1 BUSINESS STRATEGY

## Lifestyle Communities will continue rolling out affordable housing for the over 50s

- Focused strategy to dominate the niche of affordable housing to the over 50s market building on the key thematics of the ageing population, affordability and the emerging baby boomer
- Lifestyle Communities' brand is now clearly differentiated in the consumer's mind against traditional retirement communities
- Drive sales and recycle capital faster allowing for development of a new community at least every 12 months subject to identification of appropriate sites
- Focus in Victoria to capitalise on growing population and the continued lack of supply of affordable housing

**Lifestyle Communities will continue to grow its portfolio of affordable communities**

## 5.2 BUSINESS MODEL

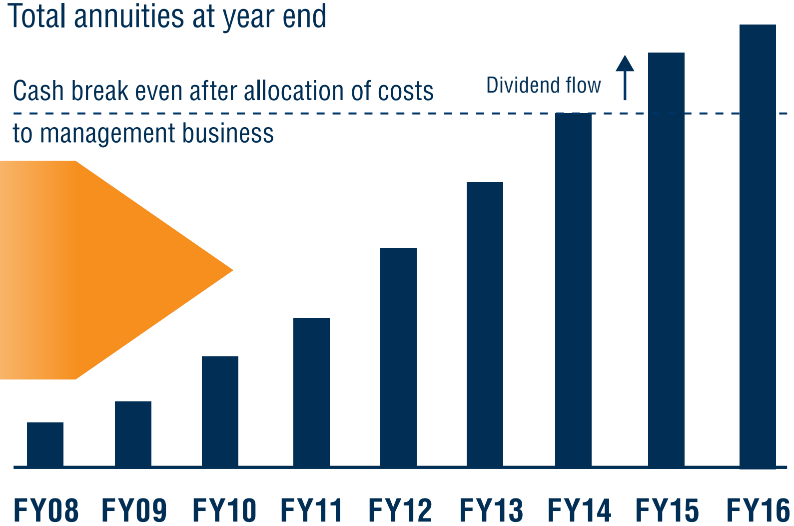
**Lifestyle Communities aims to recover 100% of its project related costs from home sales**

**The growing level of free cash flow from the community management business provides the basis for future dividends**

### Development Business


### Community Management Business

Total annuities at year end




Note: Not to scale

### As at 30 June 2016

**Total home sites in portfolio**[(1) (2)]

**2,445**

**Total Occupied home sites**[(2)]

**1,348**

**As at 30 June 2016 the gross rental annualised at $11.9 million per annum**

Source: (1) Settled, under development or subject to planning
(2) Represents gross numbers not adjusted for joint venture interests

# 5.2 BUSINESS MODEL (CONTINUED)

## Lifestyle Communities develops and manages affordable land lease communities delivering long term annuities from home site fees and resales

### CUSTOMER NEEDS

Are satisfied by...

**MOVING IN**

Move into a new, affordable, low maintenance home in a land lease community. Homeowner owns their house and has a 90 year lease over the land

**LIVING**

Release of equity on downsizing and payment of affordable weekly rental with the benefit for pensioners of being subsidised by Government rental assistance

**MOVING OUT**

Net proceeds of home sale released to homeowner to fund the next stage of life. DMF capped at 20% of the resale price

### OUR BUSINESS MODEL

Which provides...

**Develop and sell new homes:**

- Relative to area median
- Off the plan sales - no stamp duty
- 100% cash development costs recovered

**Land ownership:**

- Generates long-term (90 years) annuity income streams with a 3.5% or CPI increase.
- Covered under Part 4A of the Residential Tenancies Act (Vic)

**On resale:**

- Assist vendor with sale to maximise value
- Crystallise DMF, capped at 20% of resale price

**Circulating capital for pipeline of development projects**

### ATTRACTIVE SHAREHOLDER RETURNS

- Cash generated by sale of home covers full cost of development
- Capital redeployed in new community roll outs

- Growing rental income base with each new settlement
- Rental increases linked to CPI or 3.5%
- Strict cost management across business operations

- DMF income on resale of homes adds to community management cashflows

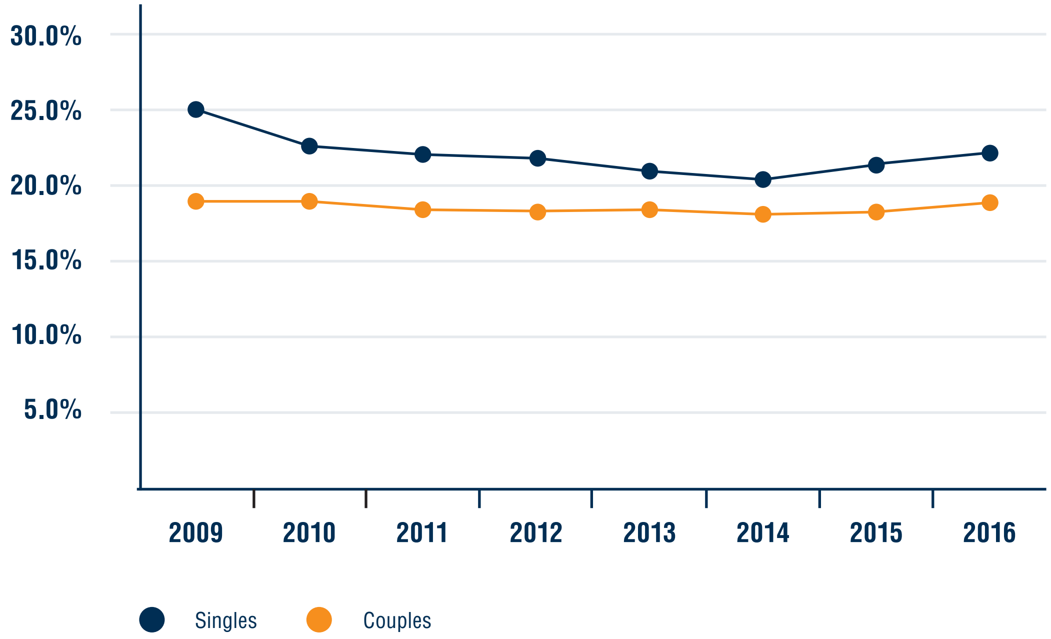
## 5.3 AFFORDABILITY

# Rent as a percentage of the pension remains affordable and sustainable

### Attributes

- Lifestyle Communities' homeowners who receive the age pension and rent assistance are paying approximately:
  - 19.1% of their pension as rental (for couples) net of rental assistance, reduced from 19.8% seven years ago
  - 22.2% of their pension as rental (for singles) net of rental assistance, reduced from 25.3% seven years ago
- Compares very favourably with industry and government benchmarks

### Site rental as a % of pension




Source: Australian Government Centrelink Website, March 2016

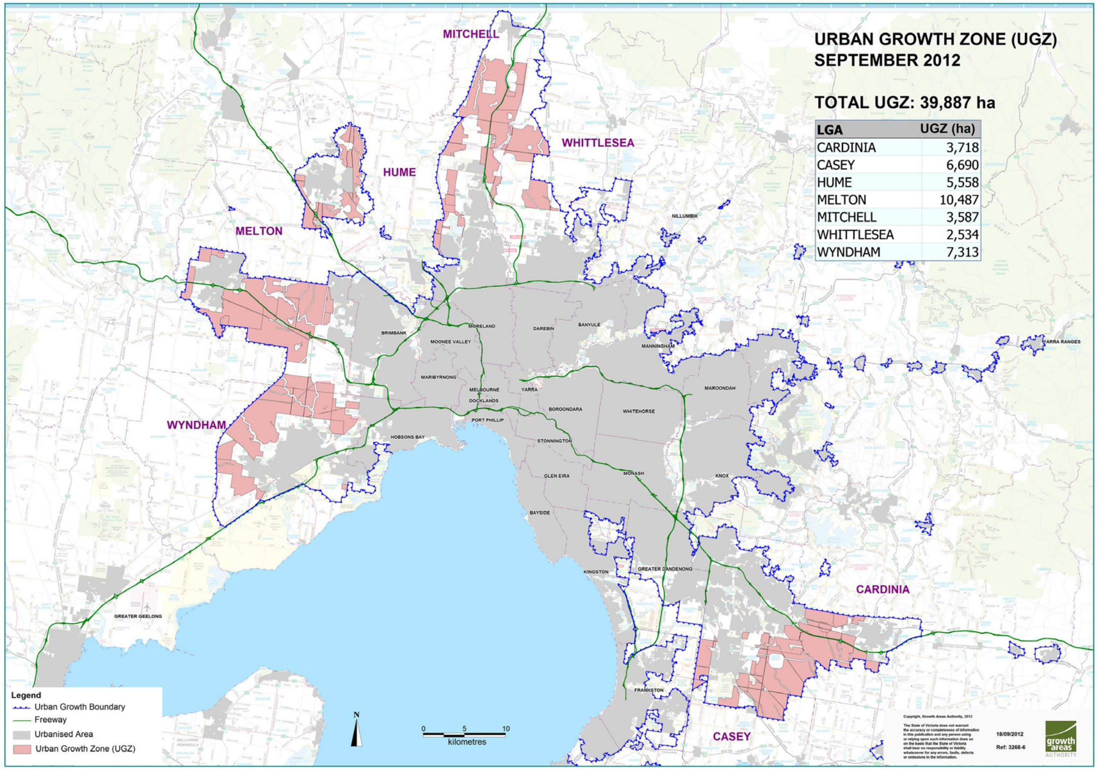
**The Lifestyle Communities model creates a long-term sustainable financial solution for homeowners**

# 5.4 FOCUSED ACQUISITION STRATEGY

## Lifestyle Communities continually performs detailed due diligence on Victoria's growth corridors to source sites

## A rigorous acquisition strategy de-risks community roll-outs

- Focusing on opportunities in Victoria to capitalise on the lack of supply of affordable housing, forecast population growth and brand equity
- Continue to target sites in Melbourne's key growth corridors and major regional centres which are assessed against the following criteria:
    - Demographics of immediate catchment including number of over 50s
    - The forecast rate of population growth in the area
    - Proposed house prices within the community relative to the local median house price
    - Competition and alternative affordable housing solutions
- Undertake assessment of multiple sites within each growth corridor to ensure the most suitable location
- Securing sites in a premium location results in optimum sales rate with achievable realisations




Melbourne's Growth Corridors

# 5.5 LAND ACQUISITION AND EXPANSION

## In FY2016 acquired land at Bittern and Ocean Grove

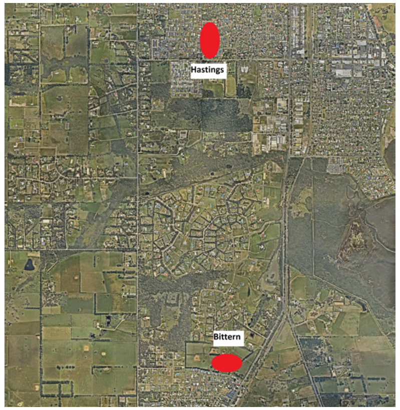
## Expansion of Shepparton community

### FY2016 acquisitions and expansion:

1. In August 2015, Lifestyle Communities announced the acquisition of a new site in Bittern, on Melbourne's Mornington Peninsula. This site had an original size of approximately 160 homes. The Company was able to negotiate the purchase of an additional two hectares of land which will add approximately 48 homes taking the community to approximately 208 homes. Settlement of the original land is scheduled for the second quarter of FY2017 and the additional land is scheduled to settle approximately 12 months later. The development of this community is subject to planning approval.

2. In May 2016, Lifestyle Communities announced the acquisition of a new site in Ocean Grove, on Geelong's Bellarine Peninsula. This site has added 190 homes to the pipeline. The settlement of the land is subject to planning although the company does not believe this is a material risk for this site. Settlement of land is contracted to occur in November 2017 and construction is planned to commence soon after.

3. Due to the continued strong sales achieved at Shepparton the Company approved the expansion of the community and will develop a further 47 homes on existing Company-owned land. This will take total homes in Shepparton to 268 homes, with 191 (or 71%) already sold. Additional community facilities (including a pool) will be provided to residents as part of the expansion.




## We are continuing to assess a number of new sites

## 5.6
## KEY RISKS

# The company ensures diligent risk management at each stage of the development cycle

1 → 2 → 3 → 4 → 5

### 1 Financial

- Strong balance sheet
- Low gearing
- Liquidity

### 2 Site Selection

- Long-term experience in the market
- Detailed land strategy and due diligence on target sites

### 3 Community Roll Out

- Level of pre-sales determines stage commencement
- Stage-by-stage construction

### 4 Sales

- Control customer touch points by targeted marketing and transparency
- Diversification through multiple site exposures

### 5 Community Management

- Rigorous staff selection
- Very transparent sales and contract process
- Maintain community to a high quality
- Operational cost control

**Disciplined approach to each stage mitigates risk**

# 6.0 SUMMARY

- FY2016 delivered another solid year of home settlements (202)[1]
- The recently announced Ocean Grove acquisition, along with the Bittern acquisition and Shepparton expansion has increased the total portfolio to 2,445 homes[2]
- Annuity income from homeowner rentals grew by $1.9 million to $11.1 million as a result of having 1,348 settled homes
- Net profit attributable to shareholders up 16% to $19.3 million
- The increase in settlements, coupled with an expected increased contribution from community management, is expected to result in a material increase in profit in FY2017
- Total dividends for FY2016 of 2.5 cents per share fully franked
- Funded and resourced to roll-out a community at least every 12 months subject to identification of appropriate sites

**A proven business that is structured for sustainable growth**

Notes: (1) Represents gross numbers not adjusted for joint venture interests
(2) Settled, under development or subject to planning

# 6.1 BOARD OF DIRECTORS

**Tim Poole**
Chairman
Non-executive, independent

**James Kelly**
Managing Director
Founder

**Bruce Carter**
Non-executive
Founder

**Philippa Kelly**
Non-executive
Independent

**Jim Craig**
Non-executive
Independent

# APPENDIX

# A.1 SALES AND SETTLEMENTS

| | New Home Settlements | | New homes - net sales commitments commitments | | Resale homes settlements | | Resale homes - net sales commitments commitments | |
|---|---|---|---|---|---|---|---|---|
| | FY2016 | FY2015 | FY2016 | FY2015 | FY2016 | FY2015 | FY2016 | FY2015 |
| Brookfield | - | - | - | - | 23 | 15 | 17 | 20 |
| Seasons | - | 1 | - | - | 5 | 5 | 7 | 4 |
| Warragul | 2 | 12 | - | 1 | 9 | 7 | 11 | 10 |
| Casey Fields(1) | 2 | 42 | - | 20 | 5 | 5 | 8 | 5 |
| Shepparton | 51 | 38 | 49 | 54 | 1 | - | 1 | 1 |
| Chelsea Heights(1) | 27 | 62 | - | 13 | 5 | 2 | 6 | 2 |
| Hastings | 14 | 82 | - | 31 | 4 | - | 5 | - |
| Lyndarum | 43 | 3 | 39 | 22 | - | - | - | - |
| Geelong | 36 | - | 51 | 28 | - | - | - | - |
| Officer | 27 | - | 51 | 42 | - | - | - | - |
| Berwick Waters | - | - | 31 | - | - | - | - | - |
| Bittern | - | - | - | - | - | - | - | - |
| Ocean Grove | - | - | - | - | - | - | - | - |
| **Total** | **202** | **240** | **221** | **211** | **52** | **34** | **55** | **43** |

Notes: (1) Represents gross numbers not adjusted for joint venture interests

# A.2 DEFERRED MANAGEMENT FEES

| | Brookfield | Seasons | Warragul | Casey Fields | Shepparton | Chelsea Heights | Hastings | Total |
|---|---|---|---|---|---|---|---|---|
| **Historical resales[1]** | **87** | **16** | **28** | **14** | **2** | **7** | **4** | **158** |
| Average tenure (years) | 5.20 | 4.55 | 3.49 | 2.39 | 2.27 | 2.06 | 1.91 | 4.33 |
| Price growth p.a. | 3.7% | 2.1% | 2.5% | 3.3% | 1.4% | 11.4% | 9.8% | 3.5% |
| Average sales price | 226,494 | 246,656 | 260,268 | 307,321 | 208,000 | 400,713 | 338,375 | 252,997 |
| Average DMF[2] | 35,202 | 40,861 | 35,569 | 34,643 | 26,720 | 38,886 | 30,595 | 36,190 |
| Average DMF rate | 15.7% | 16.6% | 13.8% | 11.1% | 14.0% | 9.7% | 9.0% | 14.7% |
| **FY2016 resales[1]** | **23** | **5** | **9** | **5** | **1** | **5** | **4** | **52** |
| Average tenure (years) | 7.26 | 5.37 | 3.77 | 2.56 | 2.63 | 2.42 | 1.91 | 5.06 |
| Price growth p.a. | 2.0% | 2.1% | 2.7% | 4.6% | 0.6% | 11.5% | 9.8% | 3.0% |
| Average sales price | 229,217 | 247,000 | 270,056 | 354,100 | 168,000 | 409,000 | 338,375 | 274,510 |
| Average DMF[2] | 36,256 | 47,200 | 43,713 | 42,848 | 33,600 | 42,280 | 30,595 | 39,326 |
| Average DMF rate | 16.0% | 19.2% | 16.4% | 12.0% | 20.0% | 10.4% | 9.0% | 15.0% |

Notes: (1) Includes resales attracting DMF, in FY2016 there were 14 resales that didn't attract a DMF (due to the Company's Smart Buy Guarantee whereby no DMF is payable within first 12 months)
(2) Excludes selling and administration fees

# A.3.1 INVESTMENT PROPERTY ANALYSIS

| Community Valuation Summary | | | | |
|---|---|---|---|---|
| | 30 June 2016 | | | Investment properties per financials 30 June 2016 |
| | Total Homes | Homes Occupied | Investment properties at cost (1) ($m) | At fair value ($m) |
| **Mature Communities** | | | | |
| Brookfield | 228 | 228 | 6.76 | 25.63 |
| Seasons | 136 | 136 | 3.68 | 14.74 |
| Warragul | 182 | 182 | 2.53 | 21.81 |
| Casey Fields^ | 217 | 217 | 3.87 | 16.94 |
| Chelsea Heights^ | 186 | 186 | 6.19 | 13.37 |
| Hastings | 141 | 141 | 7.36 | 14.44 |
| **Communities under development** | | | | |
| Shepparton | 268 | 149 | 3.16 | 17.66 |
| Lyndarum | 154 | 46 | 7.13 | 9.54 |
| Geelong | 164 | 36 | 6.95 | 9.36 |
| Officer | 151 | 27 | 5.49 | 7.23 |
| Berwick Waters | 220 | - | 12.08 | 11.45 |
| Bittern(2) | 208 | - | 0.27 | 0.27 |
| Ocean Grove(2) | 190 | - | 1.26 | 1.26 |
| **Total** | **2,445** | **1,348** | **66.73** | **163.68** |

Notes: ^ Represents LIC's share in the on-completion assets
(1) Cost includes land value, land holding costs and for Brookfield, Tarneit and Warragul civils retained by LIC under home purchase agreements entered into prior to 1 January 2009
(2) Bittern and Ocean Grove contracts are conditional as at 30 June 2016 and therefore only the deposit is reflected in the balance sheet

# A.3.2 INVESTMENT PROPERTY ANALYSIS

| Community Valuation Summary (On Completion) | | | | | | |
|---|---|---|---|---|---|---|
| | Rental Metrics | | | DMF metrics (extracts from valuations) | | |
| | Last valuation date | Rental cap. rate (from valuation) | Net rental per home (from valuation adjusted[1]) | DMF discount rate | DMF terminal cap. rate | Average sale value (GST incl.) |
| **Existing Communities - sold out** | | | | | | |
| Brookfield | Apr-16 | 8.00% | 6,184 | 13.0% | 10% | 235,022 |
| Seasons | Apr-16 | 8.00% | 5,432 | 13.0% | 10% | 264,941 |
| Warragul | Apr-16 | 8.00% | 6,359 | 13.0% | 10% | 267,381 |
| Casey Fields^ | Apr-16 | 8.00% | 6,555 | 13.0% | 10% | 310,958 |
| Chelsea Heights^ | Apr-16 | 8.00% | 6,011 | 13.75% | N/A | 366,000 |
| Hastings | May-15 | 8.25% | 6,190 | 14.0% | N/A | 276,130 |
| **Existing Communities - selling and settling** | | | | | | |
| Shepparton | May-15 | 8.50% | 6,853 | 14.0% | 10% | 199,294 |
| Lyndarum | Apr-16 | 8.00% | 5,918 | 14.0% | N/A | 323,000 |
| Geelong | Apr-16 | 8.00% | 6,174 | 13.5% | 10% | 303,696 |
| Officer | May-15 | 8.25% | 6,190 | 14.0% | N/A | 286,996 |
| Berwick Waters | Feb-16 | 8.50% | N/A | 13.5% | 10% | 329,645 |

Notes: (1) Weekly rental income adjusted to reflect inflation at Hastings, Shepparton and Officer (communities not valued this year)
^ Represents 100% of the development of which LIC will share 50%
Valuer's Rental calculation methodology: capitalisation rate on annual rental income
Valuer's DMF calculation methodology: NPV of 20 year cash flows with terminal value at year 21 or NPV of 40 year cash flows with no terminal value

# A.4.1 CASHFLOW ANALYSIS FY2016

| Supplementary Cash Flow Analysis for FY2016 | Brookfield | Seasons | Warragul | Casey Fields[3] | Shep-parton | Chelsea Heights[3] | Hastings | Lyndarum | Geelong | Officer | Berwick Waters | Bittern | Ocean Grove | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Number of Homes | 228 | 136 | 182 | 217 | 268 | 186 | 141 | 154 | 164 | 151 | 220 | 208 | 190 | 2,445 |
| Settled FY2016* | - | - | 2 | 2 | 51 | 27 | 14 | 43 | 36 | 27 | - | - | - | 202 |
| Remaining homes available to settle | - | - | - | - | 119 | - | - | 108 | 128 | 124 | 220 | 208 | 190 | 1,097 |
| **Development Cash Flows ($million)** | | | | | | | | | | | | | | |
| Land | - | - | - | - | - | - | - | - | - | - | - | (0.27) | (1.26) | (1.53) |
| Development Expenditure (development and sales) | - | - | - | (0.03) | (3.02) | (0.51) | (0.33) | (6.54) | (5.73) | (10.03) | (0.76) | (0.01) | - | (26.96) |
| Home Construction | - | - | (0.02) | - | (9.27) | (0.83) | (0.64) | (7.98) | (8.61) | (9.30) | (0.02) | - | - | (36.67) |
| Home Settlements | - | - | 0.41 | 0.33 | 10.72 | 4.16 | 3.82 | 12.78 | 9.87 | 8.03 | - | - | - | 50.12 |
| **Net Development Cash Flows** | **-** | **-** | **0.39** | **0.30** | **(1.57)** | **2.81** | **2.85** | **(1.74)** | **(4.47)** | **(11.30)** | **(0.78)** | **(0.28)** | **(1.26)** | **(15.04)** |
| **Annuity Cash Flows ($million)** | | | | | | | | | | | | | | |
| Site Rentals (incl. Management Fees) | 2.00 | 1.21 | 1.63 | 1.93 | 1.13 | 1.63 | 1.24 | 0.20 | 0.10 | - | - | - | - | 11.07 |
| Deferred Management Fees Received (net)[1] | 0.82 | 0.21 | 0.37 | 0.27 | 0.04 | 0.27 | 0.19 | - | - | - | - | - | - | 2.17 |
| Community Operating Costs | (0.60) | (0.51) | (0.54) | (0.51) | (0.55) | (0.43) | (0.39) | (0.27) | (0.25) | (0.08) | - | - | - | (4.13) |
| Net result from utilities | (0.06) | (0.01) | - | (0.03) | (0.03) | 0.02 | (0.03) | (0.07) | (0.05) | (0.01) | - | - | - | (0.27) |
| Share to non-controlling interests[2] | - | - | - | (0.62) | - | (0.54) | - | - | - | - | - | - | - | (1.16) |
| **Net Annuity Cash Flows** | **2.16** | **0.90** | **1.45** | **1.04** | **0.59** | **0.95** | **1.01** | **(0.14)** | **(0.20)** | **(0.08)** | **-** | **-** | **-** | **7.68** |
| Head Office Costs | | | | | | | | | | | | | | (4.58) |
| **Net Operating Cash Flows** | | | | | | | | | | | | | | **(11.94)** |
| Reconciliation to statutory cash flows | | | | | | | | | | | | | | |
| Less – Interest | | | | | | | | | | | | | | (1.94) |
| Less – Income taxes paid | | | | | | | | | | | | | | (3.75) |
| Add – Land (investing cash flow) | | | | | | | | | | | | | | 1.53 |
| Less – Movement in inventory and creditors | | | | | | | | | | | | | | (1.20) |
| Add – Non-controlling interests | | | | | | | | | | | | | | 3.11 |
| **Statutory Cash Flows from Operations ($million)** | | | | | | | | | | | | | | **(14.20)** |

Notes: * LIC's economic interest is 188 homes after allowing for Joint Venture interests
(1) Deferred management fees received are inclusive of selling and administration fees as well as wages and marketing costs
(2) Lifestyle Communities record 100% rental income and pay out 50% (after management fees) to non-controlling interests
(3) 50% of development cash flows for joint venture are reflected above

# A.4.2 CASHFLOW ANALYSIS FY2015

| Supplementary Cash Flow Analysis for FY2015 | Brookfield | Seasons | Warragul | Casey Fields[3] | Shepparton | Chelsea Heights[3] | Hastings | Lyndarum | Geelong | Rosebud | Officer | Berwick Waters | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Number of Homes | 228 | 136 | 182 | 217 | 221 | 186 | 141 | 154 | 164 | 150 | 151 | 225 | 2,155 |
| Settled FY2015* | - | 1 | 12 | 42 | 38 | 62 | 82 | 3 | - | - | - | - | 240 |
| Remaining homes available to settle | - | - | 2 | 2 | 123 | 27 | 14 | 151 | 164 | 150 | 151 | 225 | 1,009 |
| **Development Cash Flows ($million)** | | | | | | | | | | | | | |
| Land | - | - | - | - | - | - | - | - | - | (0.37) | (5.49) | (1.15) | (7.01) |
| Development Expenditure (development and sales) | - | - | (0.14) | (0.57) | (1.86) | (2.16) | (1.02) | (6.80) | (6.22) | (0.05) | (0.52) | (0.02) | (19.36) |
| Home Construction | - | (0.01) | (0.02) | (0.74) | (3.94) | (4.42) | (8.42) | (2.97) | (0.58) | - | - | - | (21.12) |
| Home Settlements | - | 0.24 | 2.75 | 6.05 | 7.35 | 10.38 | 22.34 | 0.79 | - | - | - | - | 49.92 |
| **Net Development Cash Flows** | **-** | **0.23** | **2.59** | **4.74** | **1.55** | **3.80** | **12.90** | **(8.98)** | **(6.80)** | **(0.42)** | **(6.01)** | **(1.17)** | **2.43** |
| **Annuity Cash Flows ($million)** | | | | | | | | | | | | | |
| Site Rentals (incl. Management Fees) | 1.96 | 1.23 | 1.63 | 1.81 | 0.71 | 1.03 | 0.79 | - | - | - | - | - | 9.16 |
| Deferred Management Fees Received | 0.54 | 0.20 | 0.31 | 0.23 | - | 0.09 | 0.01 | - | - | - | - | - | 1.38 |
| Community Operating Costs | (0.53) | (0.46) | (0.59) | (0.50) | (0.44) | (0.33) | (0.30) | (0.06) | (0.02) | - | - | - | (3.23) |
| Net result from utilities | 0.01 | 0.03 | 0.03 | 0.03 | (0.01) | 0.03 | (0.02) | (0.01) | - | - | - | - | 0.09 |
| Share to non-controlling interests[2] | - | - | - | (0.59) | - | (0.30) | - | - | - | - | - | - | (0.89) |
| **Net Annuity Cash Flows** | **1.98** | **1.00** | **1.38** | **0.98** | **0.26** | **0.52** | **0.48** | **(0.07)** | **(0.02)** | **-** | **-** | **-** | **6.51** |
| Head Office Costs | | | | | | | | | | | | | (3.83) |
| **Net Operating Cash Flows** | | | | | | | | | | | | | **5.11** |
| Reconciliation to statutory cash flows | | | | | | | | | | | | | |
| Less – Interest | | | | | | | | | | | | | (4.05) |
| Less – Income taxes paid | | | | | | | | | | | | | (1.61) |
| Add – Land (investing cash flow) | | | | | | | | | | | | | 7.01 |
| Add – Movement in inventory, creditors and JV fees owing | | | | | | | | | | | | | 1.41 |
| Add – Non-controlling interests | | | | | | | | | | | | | 8.54 |
| **Statutory Cash Flows from Operations ($million)** | | | | | | | | | | | | | **16.41** |

Notes: * LIC's economic interest is 188 units after allowing for Joint Venture interests
(1) Deferred management fees received are inclusive of selling and administration fees as well as wages and marketing costs
(2) Lifestyle Communities record 100% rental income and pay out 50% (after management fees) to non-controlling interest
(3) 50% of development cash flows for joint venture are reflected above

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Lifestyle

COMMUNITIES

DOWNSIZE TO A BIGGER LIFE

LIFESTYLE COMMUNITIES LIMITED
Level 2, 25 Ross Street
South Melbourne VIC 3205
Ph: (03) 9682 2249

www.lifestylecommunities.com.au