NEW ZEALAND EQUITY RESEARCH | AGED CARE | AGED CARE
20 JUNE 2024

Radius Residential Care
Aged Care Focus Drives Superior Returns

JAMES LINDSAY
James.Lindsay@forsythbarr.co.nz
+64 9 368 0145

WILL TWISS
will.twiss@forsythbarr.co.nz
+64 9 368 0129

KYLIE MILLS
kylie.mills@forsythbarr.co.nz
+64 9 918 9265

Radius Residential Care (RAD) is unique in New Zealand's aged care and retirement village landscape. Unlike its listed peers, it operates with a care-focused model, which has translated to industry-leading care profitability and robust occupancy levels. Its mixed portfolio of owned and leased assets also introduces a different model for investors to understand. While RAD does not offer the same exposure to property market gains over time, it generates robust cash flows from operations, which it can distribute to shareholders. With its debt levels now manageable, RAD offers an attractively priced exposure to an industry with favourable long-term dynamics from an ageing population and a care bed supply shortfall. Our blended spot valuation is NZ$0.26, offering significant upside from the current share price.

NZX Code	RAD
Share price	NZ$0.14
Spot Valuation	NZ$0.26
Risk rating	Medium
Issued shares	284.9m
Market cap	NZ$40.5m
Avg daily turnover	181.2k (NZ$23k)

Financials: Mar/	24A	25E	26E	27E
Rev (NZ$m)	171.2	174.0	180.8	187.9
NPAT* (NZ$m)	3.5	6.4	8.2	9.7
EPS* (NZc)	1.2	2.3	2.9	3.4
DPS (NZc)	0.7	1.4	1.7	1.9
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	24A	25E	26E	27E
PE	11.7	6.3	4.9	4.2
EV/EBIT	13.0	12.5	11.5	10.7
EV/EBITDA	8.4	8.1	7.5	7.2
Price / NTA	0.9	0.8	0.8	0.8
Cash div yld (%)	4.9	9.9	12.0	13.4
Gross div yld (%)	6.8	13.7	16.6	18.6

Care focused operator with industry-leading profitability

RAD is a focused care operator with retirement assets, unlike many competitors who offer care as part of a continuum of care model. RAD's (1) high-acuity portfolio, (2) scale, (3) hyper-focus on efficiency, and (4) premium accommodation charges translate to superior profitability and robust occupancy rates. Its EBITDAR per care bed of NZ$24.7k in FY24 is materially higher than other industry participants based on our estimations. We see opportunities for RAD to grow both organically (greenfield and brownfield developments) and via acquisitions over time.

Attractive industry dynamics

NZ's aged care industry is well-positioned to benefit from demographic trends over the next several decades, with a rapidly ageing population likely to intensify demand for retirement and aged care services. RAD offers an attractive exposure to the industry given its portfolio of high-acuity care assets and proven track record as a profitable care operator.

Radius Residential Care Limited (RAD)

Market Data (NZ$)	
Priced as at 19 Jun 2024	**0.14**
52 week high / low	0.23 / 0.11
Market capitalisation (NZ$m)	39.9

Carbon and ESG (CESG)**	
CESG rating	n/a
CESG score	n/a
Sector average CESG score	n/a
NZ average CESG score	n/a

Profit and Loss Account (NZ$m)	2023A	2024A	2025E	2026E	2027E
Revenue	146.3	171.2	174.0	180.8	187.9
Normalised EBITDA	**22.7**	**29.6**	**28.7**	**30.4**	**31.9**
Depreciation and amortisation	(10.0)	(9.9)	(8.6)	(8.5)	(8.4)
Normalised EBIT	**12.7**	**19.7**	**20.1**	**22.0**	**23.5**
Net interest	(12.4)	(15.5)	(11.7)	(11.3)	(10.8)
Associate income	0	0	0	0	0
Tax	0.9	(12.1)	(1.9)	(2.4)	(3.0)
Minority interests	0	0	0	0	0
Normalised NPAT	**1.2**	**3.5**	**6.4**	**8.2**	**9.7**
Abnormals/other	(3.3)	(11.9)	(1.5)	(2.0)	(2.1)
Reported NPAT	**(2.1)**	**(8.5)**	**4.9**	**6.3**	**7.6**
Normalised EPS (cps)	0.4	1.2	2.3	2.9	3.4
DPS (cps)	0.7	0.7	1.4	1.7	1.9

Growth Rates	2023A	2024A	2025E	2026E	2027E
Revenue (%)	9.7	17.1	1.6	3.9	3.9
EBITDA (%)	1.9	30.5	-3.2	6.2	4.7
EBIT (%)	-22.1	>100	-2.6	7.6	7.5
Normalised NPAT (%)	-27.8	>100	86.7	28.0	17.6
Normalised EPS (%)	-38.1	>100	86.7	28.0	17.6
Ordinary DPS (%)	-52.1	0.0	100.0	21.4	11.8

Cash Flow (NZ$m)	2023A	2024A	2025E	2026E	2027E
EBITDA	**22.7**	**29.6**	**28.7**	**30.4**	**31.9**
Working capital change	(2.5)	(3.7)	(0.4)	(0.3)	(0.3)
Interest & tax paid	(14.2)	(14.0)	(13.6)	(13.7)	(13.8)
Other	(2.0)	2.3	0	0	0
Operating cash flow	**4.0**	**14.1**	**14.7**	**16.4**	**17.7**
Capital expenditure	(58.7)	(3.5)	(5.2)	(5.3)	(5.4)
(Acquisitions)/divestments	(0.5)	0	0	0	0
Other	(2.6)	(3.4)	(3.1)	(3.6)	(4.0)
Funding available/(required)	**(57.7)**	**7.3**	**6.4**	**7.6**	**8.3**
Dividends paid	(2.9)	0	(3.7)	(4.6)	(5.1)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**(60.6)**	**7.3**	**2.7**	**3.0**	**3.2**

Balance Sheet (NZ$m)	2023A	2024A	2025E	2026E	2027E
Working capital	(6.7)	(4.4)	(4.0)	(3.8)	(3.4)
Fixed assets	133.9	117.3	118.0	118.7	119.5
Intangibles	19.8	16.1	16.1	16.1	16.1
Right of use asset	112.5	109.9	105.8	101.8	98.0
Other assets	76.1	73.5	75.7	78.0	80.3
Total funds employed	**335.5**	**312.4**	**311.5**	**310.9**	**310.5**
Net debt/(cash)	100.1	73.5	70.8	67.8	64.6
Lease liability	121.5	121.1	118.0	114.4	110.4
Other liabilities	41.1	46.7	47.0	51.8	56.9
Shareholder's funds	72.9	71.1	75.8	76.9	78.7
Minority interests	0	0	0	0	0
Total funding sources	**335.5**	**312.4**	**311.5**	**310.9**	**310.5**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

Spot valuation (NZ$)	**0.26**
Comparable relative	0.22
DCF	0.26
Dividend Discount Model (DDM)	0.29

Key WACC assumptions	
Risk free rate	5.00%
Equity beta	1.19
WACC	9.6%
Terminal growth	1.5%

Valuation Ratios	2023A	2024A	2025E	2026E	2027E
EV/Sales (x)	1.6	1.5	1.3	1.3	1.2
EV/EBITDA (x)	10.4	8.4	8.1	7.5	7.2
EV/EBIT (x)	25.0	13.0	12.5	11.5	10.7
PE (x)	33.0	11.6	6.2	4.8	4.1
Price/NTA (x)	0.9	0.9	0.8	0.8	0.8
Free cash flow yield (%)	-143.4	19.9	16.0	19.1	20.9
Adj. free cash flow yield (%)	-4.0	22.0	19.2	23.7	25.6
Net dividend yield (%)	5.0	5.0	10.0	12.1	13.6
Gross dividend yield (%)	6.9	6.9	13.9	16.9	18.8

Capital Structure	2023A	2024A	2025E	2026E	2027E
Interest cover EBIT (x)	0.8	1.2	1.6	1.8	2.0
Interest cover EBITDA (x)	1.8	1.9	2.5	2.7	2.9
Net debt/ND+E (%)	61.2	54.4	51.7	50.2	48.3
Net debt/EBITDA (x)	4.4	2.5	2.5	2.2	2.0

Key Ratios	2023A	2024A	2025E	2026E	2027E
Return on assets (%)	2.6	5.7	5.6	6.0	6.4
Return on equity (%)	1.9	5.6	9.7	12.3	14.0
Return on funds employed (%)	0.3	0.9	1.7	2.2	2.6
EBITDA margin (%)	15.5	17.3	16.5	16.8	17.0
EBIT margin (%)	6.4	11.1	10.7	11.0	11.4
Capex to sales (%)	40.1	2.0	3.0	2.9	2.9
Capex to depreciation (%)	-588	-35	-60	-62	-64
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	165	58	62	59	56

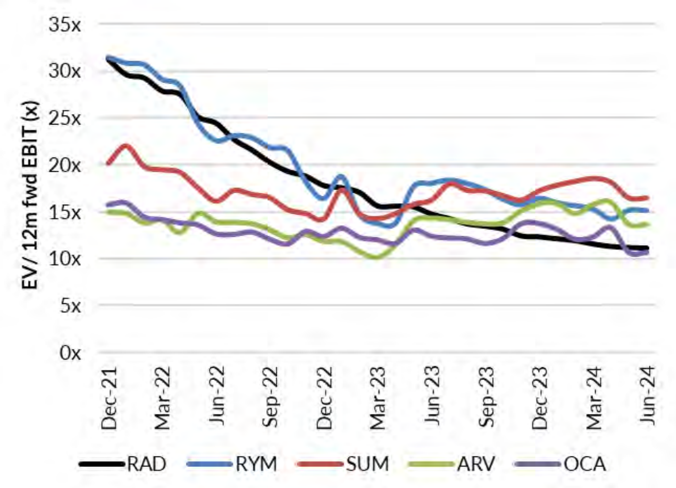
Operating Performance	2023A	2024A	2025E	2026E	2027E
Segment EBITDA					
Aged care	33.7	42.7	42.0	43.3	44.7
Retirement villages	0.8	4.5	4.2	4.9	5.2
Support	-11.8	-17.6	-17.5	-17.8	-18.1
Total	**22.7**	**29.6**	**28.7**	**30.4**	**31.9**
Key drivers					
Sales - new units	0	0	3	6	6
Ave price - new sales (NZ 000's)	0	0	500	515	530
Sales - resold units	8	28	17	18	18
Ave price - re-sales (NZ 000's)	464	390	402	414	426
Gross development margin	0	0	25%	25%	25%
Gross resales margin	21%	16%	16%	16%	16%
Portfolio					
Care beds	1,889	1,789	1,789	1,789	1,789
Care bed occupancy	92%	92%	92%	92%	92%
Accomodation supplement beds	1,287	1,217	1,219	1,219	1,220
% of beds with supplements	68%	68%	68%	68%	68%

Executive Summary

Radius Residential Care (RAD) has carved out a unique niche as a care-focused operator in NZ's aged care and retirement industry. However, its share price has fallen significantly from NZ$0.80 at the time of its direct listing. In this report, we explore why we believe the risk/reward profile has now stabilised and why there is significant potential for upside from the current share price of NZ$0.142. The report is structured into three main sections:

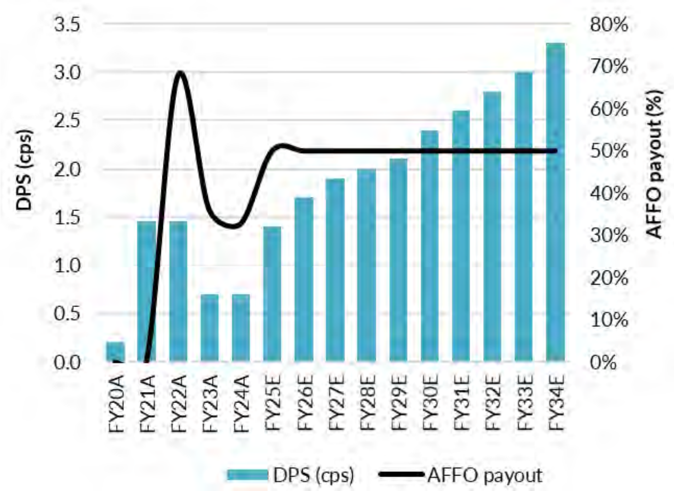
- **Section 1 — Investment thesis and valuation:** Our blended spot valuation for RAD is NZ$0.26, derived from: (1) a discounted cash flow (DCF) model, (2) a relative multiples valuation, and (3) a dividend discount model. At the current share price, RAD appears to offer solid valuation support.
- **Section 2 — Radius Care overview:** RAD is one of the largest care operators in NZ, with a ~4% market share and a portfolio of care and retirement assets around the country. Unlike its listed NZ peers, it prioritises care (care beds are ~92% of total assets versus ~27% for peers) which is reflected in its industry-leading profitability and robust occupancy levels. RAD also differentiates itself from other operators by employing a mixed ownership and leasing model, significantly reducing capital intensity.
- **Section 3 — Industry overview:** RAD operates in an industry underpinned by attractive long-term thematics, such as an ageing population and an undersupply of care beds coming to market. Over the next fifteen years, the number of 85+ year-olds in NZ is expected to double, leading to significant demand for aged care services, which is not expected to be met by new supply. However, the industry does face challenges from cost inflation and is highly exposed to government funding.

Figure 1. RAD trades at ~11x 12-month forward EV/EBIT; a discount to its peer group



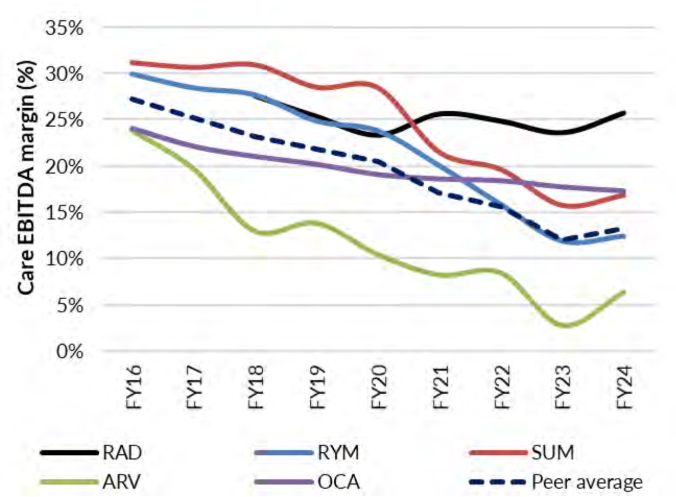
Source: Company reports, Forsyth Barr analysis

Figure 2. We expect RAD to offer an attractive dividend payout over our forecast horizon — cash yield rising to ~13% by FY27



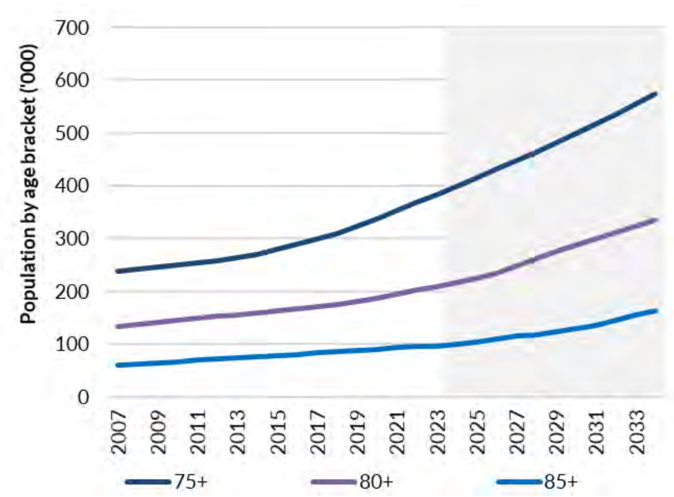
Source: Company, Forsyth Barr analysis

Figure 3. RAD operates a care-focused model, which has translated to industry-leading care profitability*



Source: Company reports, Forsyth Barr analysis *Peer margins are Forsyth Barr estimates

Figure 4. New Zealand's elderly population is expected to grow significantly, underpinning demand for aged care services



Source: Stats NZ, Forsyth Barr analysis

Section 1: Investment thesis and valuation

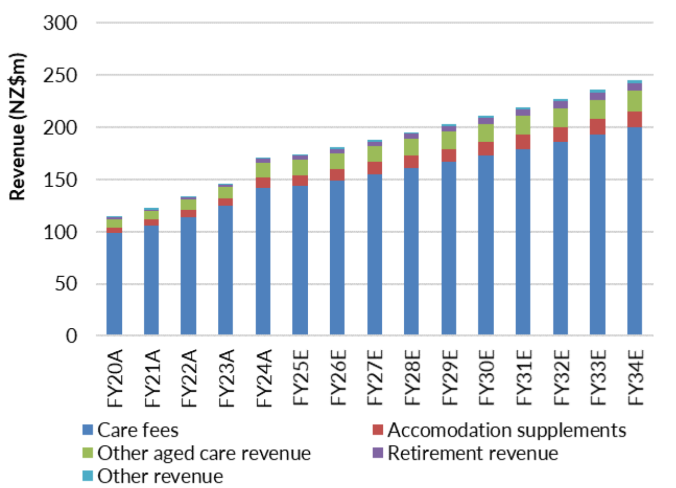
Our **blended spot valuation for RAD is NZ$0.26**. This is derived from our blended valuation methodology, including: (1) a discounted cash flow (DCF) valuation (50%), (2) a peer relative valuation using EV/EBIT multiples (25%), and (3) a dividend discount model (DDM) valuation (25%).

1.1 Discounted cash flow

Our **DCF valuation is NZ$0.26.** This valuation uses a weighted average cost of capital (WACC) of 9.57%, an asset beta of 0.95, a risk-free rate (Rfr) of 5.00%, and a terminal growth rate of +1.5%. **Our key forecast assumptions include:**

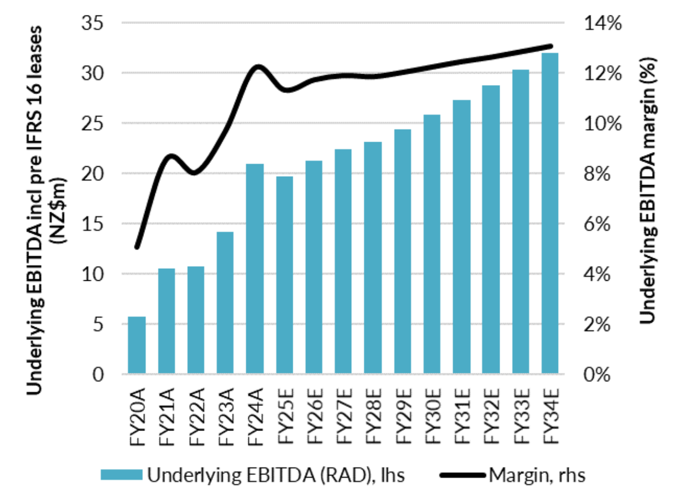
- **Care profitability**: We forecast moderate increases in underlying EBITDAR per care bed (post IFRS) over the forecast horizon, with care funding increases and premium accommodation charges outpacing cost inflation. Our terminal EBITDAR per care bed is NZ$33.3k per year, with potential upside from stronger-than-expected government funding rounds to stimulate increased supply if industry occupancy reaches capacity.
- **Occupancy:** Over the long term, we anticipate a modest increase in occupancy, edging up from ~92% in FY24 to ~94% by our terminal year. The projected shortfall of care beds in NZ should increase occupancy levels at existing facilities.
- **Accommodation supplements:** Our modelling assumes the percentage of beds with accommodation supplements grows only marginally from ~68% in FY24 towards ~69% by our terminal year. However, we include mid-single-digit supplementary revenue per bed increases over this forecast horizon, meaning total supplement revenues rises at a ~+5% compound annual growth rate (CAGR) from FY24.
- **Long-run property market expectations**: We factor in House Price Index (HPI) increases of +3% p.a. over our forecast horizon into our retirement forecasts. Our property market expectations drive our resale and new sale price estimates in RAD's retirement division (NZ$4.5m EBITDA in FY24).
- **Balance sheet:** We forecast gearing to decline over the forecast period as RAD should generate sufficient cash to deleverage its balance sheet over time, while continuing to adhere to its stated dividend policy and undertaking minor developments.
- **Capital expenditures:** Our forecasts assume maintenance capital expenditures remain relatively flat at a replacement level and expect moderate growth capex to gradually complete some of RAD's brownfield development pipeline.

Figure 5. RAD — Total revenue



Source:Company, Forsyth Barr analysis

Figure 6. RAD — Underlying EBITDA (inc. pre IFRS 16 leases)



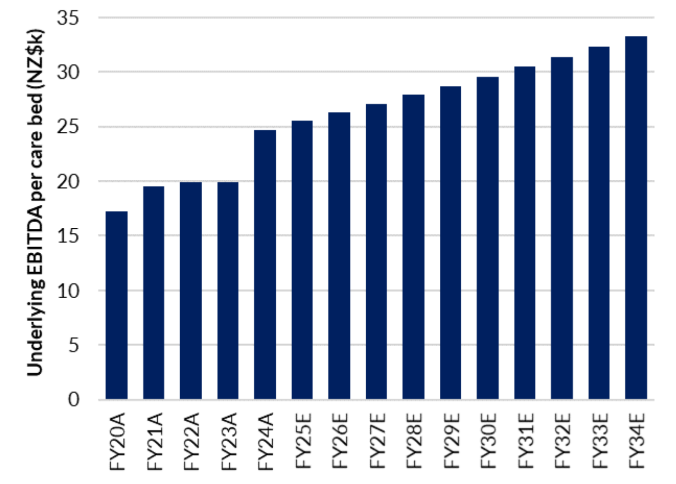
Source:Company, Forsyth Barr analysis

Highlighting factors contributing to our forecasts for FY24 and beyond

a) We expect RAD to maintain its industry-leading care profitability over time

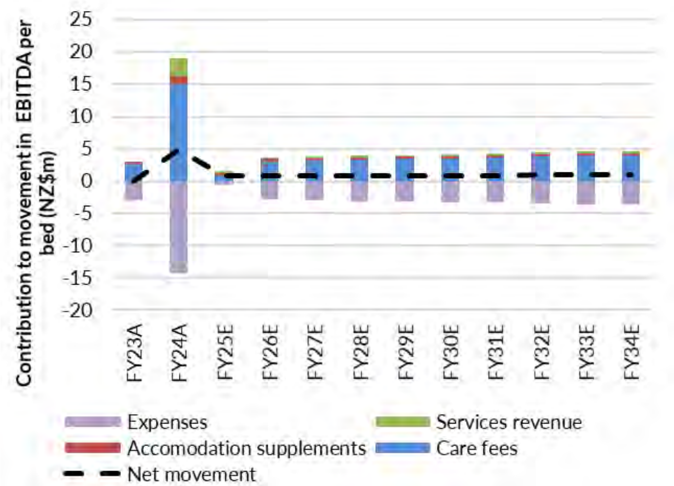
RAD has achieved industry-leading care profitability, with underlying EBITDAR per care bed of NZ$24.7k in FY24. Care profitability should continue to improve over the forecast horizon from a combination of: (1) government funding increases outpacing cost inflation, and (2) increased contributions from high-margin accommodation supplements. In aggregate, we model low-single-digit increases in underlying EBITDAR per care bed from FY25 until the end of the forecast horizon (see Figure 7).

Figure 7. RAD — Underlying EBITDAR per care bed



Source: Company, Forsyth Barr analysis

Figure 8. RAD — Movements in underlying EBITDAR per bed



Source:Company, Forsyth Barr analysis

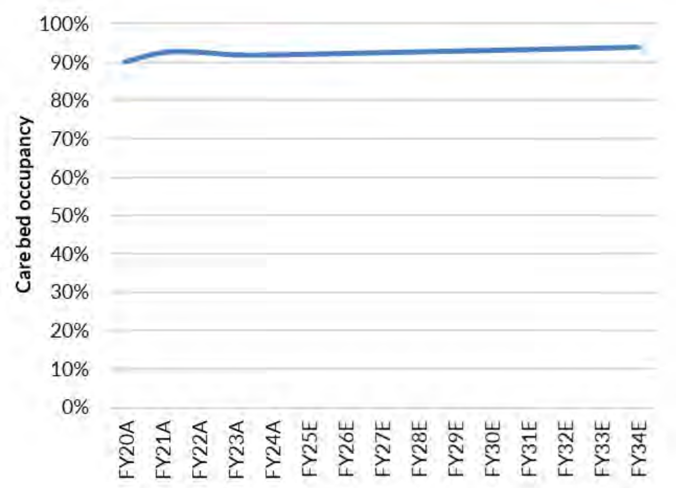
b) Our modelling assumes minor occupancy improvements in the future

From FY18 to FY24, RAD improved the occupancy of its care beds from 89.1% to 91.8%, an average increase of ~+30 bp per year. We model around +20 bp in annual improvements in RAD's occupancy level from FY25 to FY34 (see Figure 9), driven by increased demand for aged care services from an ageing population. Our terminal occupancy rate is ~94%. As of December 2023, the average occupancy level for care beds in NZ, other than those sold under an Occupational Rights Agreement (ORA), was 89.1%. While disclosure is limited, we estimate occupancy levels for listed operators is in the range of ~90% to ~95%.

c) Accommodation supplements are likely to be a solid contributor to revenue growth

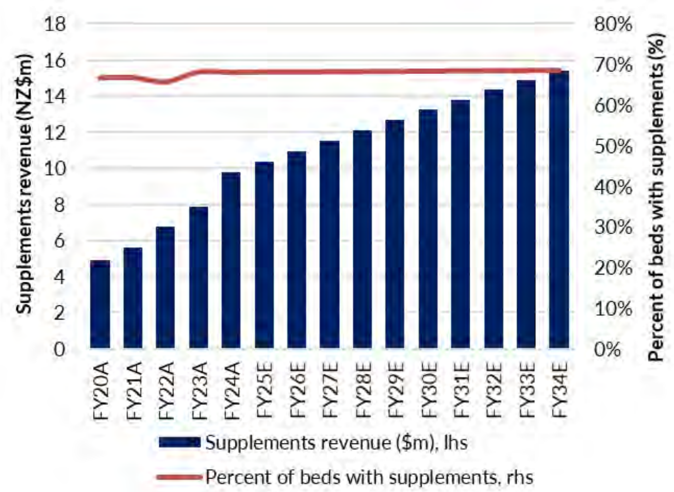
Roughly 68% of RAD's care beds carried a premium accommodation charge (PAC) in FY24, up modestly from 67% in FY20. However, the main driver of increased accommodation supplement revenue has been a rise in the average charge per premium bed from NZ$4.3k in FY20 to NZ$8.0k in FY24. We forecast that the percentage of RAD's beds that carry a PAC will gradually increase to ~69% by FY34, while charges per bed will grow at rates of +3.5% to +5.7% per annum. These forecasts are underpinned by growing household wealth and increasing expectations for the standard of living in aged care settings. This sees total supplement revenue grow at an annual CAGR of +5% over the forecast horizon (see Figure 10).

Figure 9. RAD — Care bed occupancy



Source: Company, Forsyth Barr analysis

Figure 10. RAD — Accommodation supplements



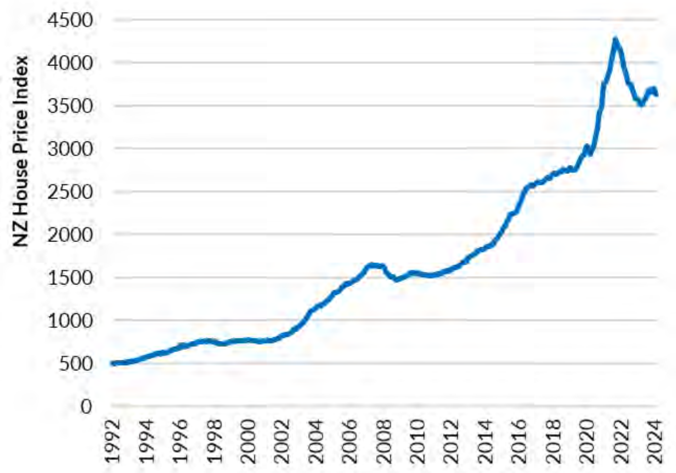
Source: Company. Forsyth Barr analysis

e) We expect low-single-digit growth in New Zealand's property market, helping RAD's retirement segment

RAD is less exposed to NZ's property market than other listed operators in the aged care and retirement space due to its care focus and mixed ownership model (retirement units comprise just ~8% of RAD's portfolio of 1,937 care beds and units). However, the property market still plays a vital role in RAD's financial performance. For one, the housing market's strength directly informs sale prices for RAD's retirement units (and thus development/resale gains). Additionally, the level of turnover in the property market influences the speed at which retirees can sell their homes and move into either a care or retirement facility.

The REINZ NZ HPI has increased by +6.8% per year and +5.8% per year over the last ten and twenty years respectively. However, performance since the market's peak in November 2021 has been muted, with prices dropping by as much as -18% by May 2023. Turnover has also been subdued, with 12m rolling sales falling from ~100k to <60k. Over the long term, we expect prices and activity in NZ's property market to improve, and we model HPI increases of +3% annually into our forecasts. While increases of this magnitude are conservative relative to history, our view is that the market will continue to be constrained by affordability for some time, reducing potential gains.

Figure 11. NZ House Price Index (HPI)



Source: REINZ, Forsyth Barr analysis

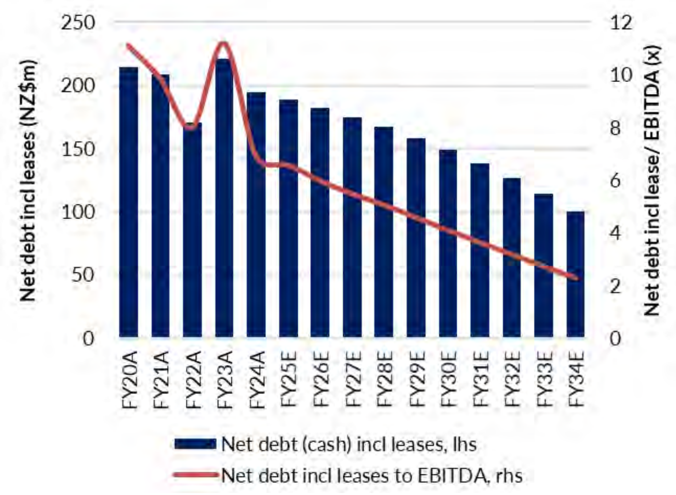
Figure 12. NZ residential property sales

Source: REINZ, Forsyth Barr analysis

f) RAD's gearing should decrease over time as EBITDA grows and residual cash flows are used to pay down debt

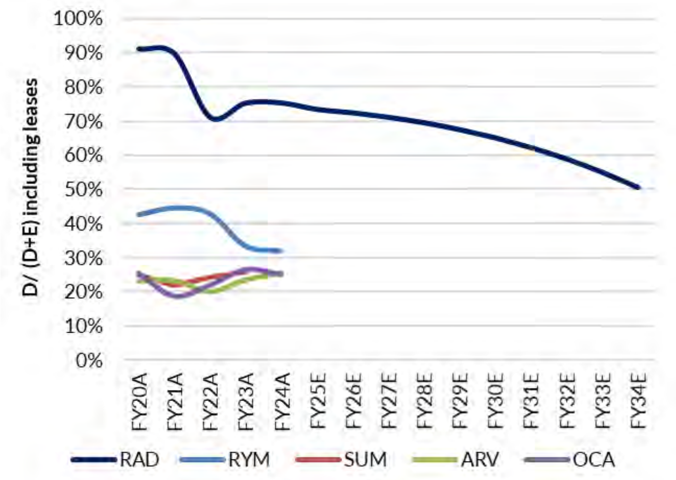
Including leases, RAD's net debt to EBITDA ratio was ~7x in FY24. Over the forecast period we expect net debt (including leases) to reduce in a steady-state scenario, with RAD paying down debt with cash from operations. This will see debt to debt + equity fall to 50% by FY34 from 75% in FY24 (see Figure 14), which we see as prudent and providing options for acquisitions. Movements in net debt have been volatile historically, which largely reflects acquisition and divestiture activity. While we expect acquisitions to continue to be a part of RAD's strategy, due to the inherent uncertainty, acquisitions are not incorporated into our forecasts.

Figure 13. RAD — Net debt including leases



Source: Company, Forsyth Barr analysis

Figure 14. RAD — Debt/(debt + equity) including leases

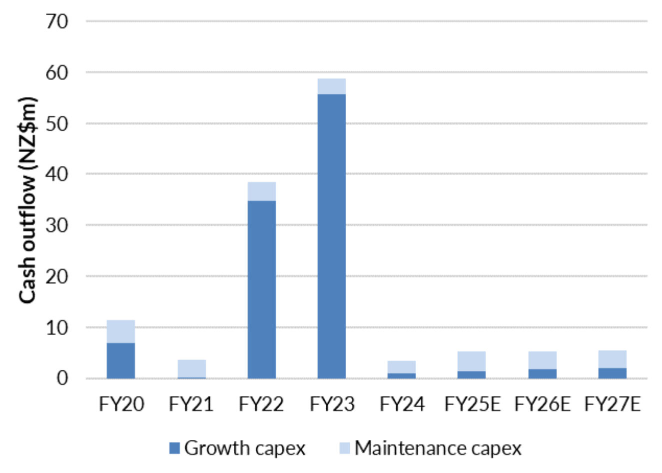


Source: Company reports, Forsyth Barr analysis

g) Capital expenditures are likely to remain low in the next few years, as RAD takes a selective approach to development

We expect maintenance capital expenditures of NZ$3m to NZ$4m over the next three years, approximately at the level required to replace depreciated assets. RAD does have a material development pipeline, totalling 76 care beds, 182 care suites/ORA rooms and 112 Independent Living Units (ILUs). However, much of this pipeline (70 care beds, 30 care suites and 94 units) relates to RAD's Northwood site in Belfast, Christchurch, which it has the right to acquire in early 2025 (see Figure 16). The start date for construction is highly uncertain and largely depends on the economic viability of initiating a greenfield development under challenging economic conditions. RAD has signalled it will take a similarly conservative approach to development at its other sites. Our forecasts thus assume limited growth capital expenditures (linked to brownfield development at existing sites), until we have better visibility into the timeline for development.

Figure 15. RAD — Capital expenditures



Source: Company, Forsyth Barr analysis

Figure 16. RAD — Development pipeline

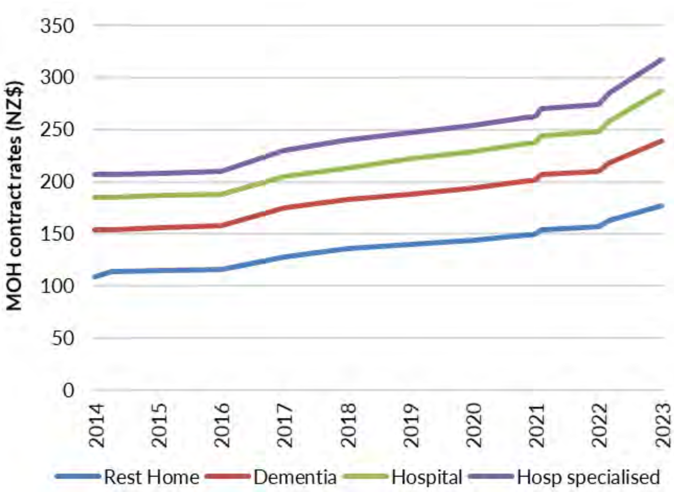
Type	Facility	Care beds	Care suites/ ORA rooms	ILUs
Greenfield	Northwood	70	30	94
Brownfield	St Joans	-24*	65	
Brownfield	Windsor	10	20	
Brownfield	Lexham Park		41	
Brownfield	Taupaki	20		
Brownfield	Peppertree		20	
Brownfield	Fulton		6	
Brownfield	Matamata			18
Total		76	182	112

Source: Company, Forsyth Barr analysis
*Removal of 30 care beds to make way for care suites and addition of 6 new care beds

h) We expect limited support from Ministry of Health (MOH) care contract increases in the short-term

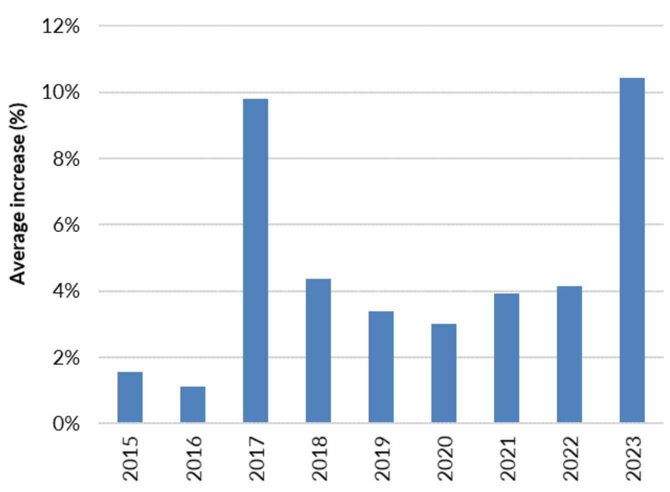
The Ministry of Health's (MOH) contract rates for services across rest homes, dementia care, hospitals, and specialised hospital care have exhibited a consistent upward trajectory. Over the last nine years, the average nightly contract rate for all types of care has grown at a CAGR of ~+5.0% (see Figure 17). Increased funding has generally been outpaced by cost inflation at an industry level, leading to declining care profitability. The most recent Labour government acknowledged the severity of these challenges and, in the latest funding allocation of July 2023, implemented a ~+10% increase in funding per bed annually. In forecast periods, we estimate that future MOH nightly rates will increase at similar levels relative to RAD's cost base. There is upside to our forecasts from stronger-than-expected MOH funding in the future, with RAD well-positioned to benefit given its robust existing profitability.

Figure 17. MOH average nightly contract rates (NZ$)



Source: Company, Forsyth Barr analysis

Figure 18. MOH average contract rates increases (%)



Source: Company, Forsyth Barr analysis

1.2 Peer multiples valuation

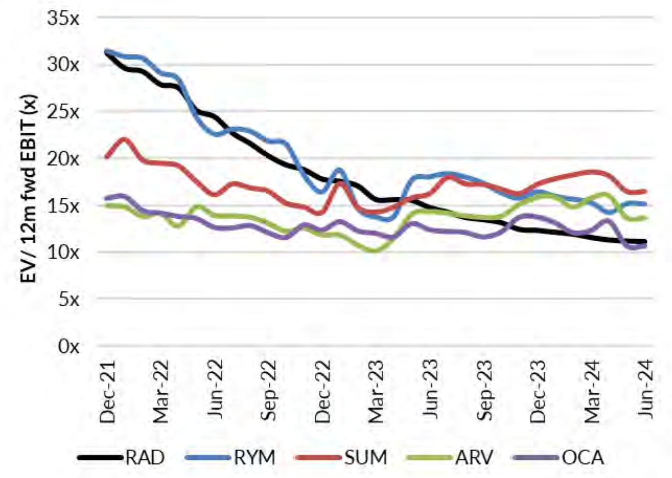
Our peer multiples valuation compares RAD with the two smallest of the four major listed players in NZ's listed aged care and retirement sector: Arvida (ARV) and Oceania (OCA). We chose to use ARV and OCA (and not Ryman Healthcare [RYM] or Summerset [SUM]) due to the more comparable scale. Given RAD's lease-intensive model, we use a twelve-month forward EV/EBIT multiple to derive an enterprise value for RAD before subtracting net debt, to arrive at an equity value. We do not apply any valuation adjustment as RAD's EV/EBIT multiple has been trending down over time, and is yet to enter a stable range with an observable premium/discount to peers. Our approach yields a peer multiple valuation of NZ$0.22 per share.

Figure 19. Peer multiples valuation

RYM EV/EBIT (x)	15.2x
OCA EV/EBIT (x)	10.7x
ARV EV/EBIT (x)	13.7x
SUM EV/EBIT (x)	16.5x
Average of ARV and OCA	**12.2x**
Discount applied	-0%
Multiple applied on 12-m forward EBIT	**12.2x**
Implied EV	**NZ$249m**
Less ND	-NZ$187m
Equity value	**NZ$62m**
Per share	**NZ$0.22**

Source: Company, Forsyth Barr analysis

Figure 20. NZ aged care sector — historical 12m fwd EV/EBIT



Source: Company reports, Forsyth Barr analysis

1.3 Dividend discount model (DDM)

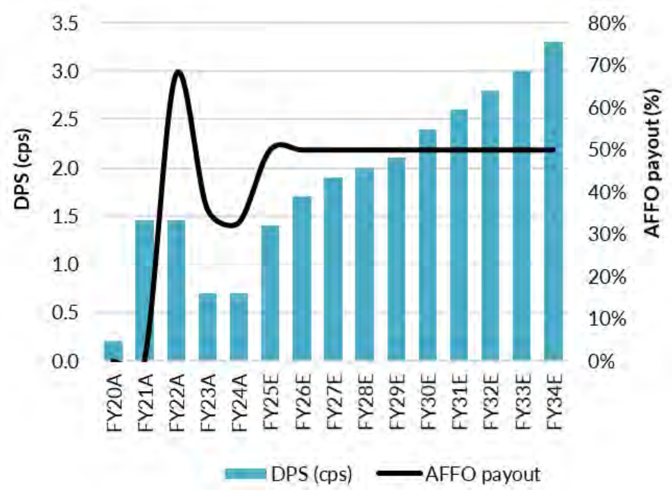
Our DDM valuation analyses the present value of the dividends we project RAD will pay out to shareholders in the future. We use the same inputs for the cost of equity (10.0%) and terminal growth (+1.5%) in our DDM valuation as in our DCF valuation. Dividends per share (DPS) across the forecast period are estimated as ~50% of adjusted funds from operations (AFFO), at the lower end of RAD's dividend payout range of '50% to 70% of AFFO'. We take this view as we perceive the need to lower long-term debt as a priority. Our DDM implies a valuation of NZ$0.29 for RAD.

Figure 21. RAD — DDM valuation

Total DPS (FY25–FY34)	NZ$0.24
Terminal DPS	NZ$0.03
Discount @ 10.0% Ke	
PV dps (FY25–FY34)	NZ$0.14
PV dps (terminal)	NZ$0.15
DDM valuation	**NZ$0.29**

Source: Company, Forsyth Barr analysis

Figure 22. RAD — DPS



Source: Company, Forsyth Barr analysis

Upside catalysts

Our blended spot valuation reflects our base-case scenario, in which there are no major changes to RAD's operating environment. However, there are also catalysts for compelling upside outside our base case. These include:

1. **Catalyst 1: An improved aged care funding model in New Zealand.** While we view significant changes in the short term as unlikely, an overhaul of the aged care funding model may be required in the long term to address the industry's challenges. The current funding model fails to incentivise the development of new care beds, which will create an escalating supply shortfall as the country's population ages. There is broad recognition that the current funding model is failing to adequately meet the needs of NZ's elderly, with an inquiry into the sector from the Health Select Committee due to begin in July 2024. The Health Select Committee's inquiry will run concurrently with Health New Zealand's 'Aged Care Funding and Services Model Review', which began in July 2023. Although the outcomes stemming from these reviews remain uncertain, improved government funding rates for care would greatly enhance economic outcomes for RAD (and the industry). We view improving funding conditions as the key catalyst for RAD to re-rate, with additional upside likely from our blended spot valuation in this scenario.
2. **Catalyst 2: Acquisitions.** We foresee opportunities for RAD to engage in value-accretive transactions to increase scale. RAD has demonstrated adept capital allocation historically, with its acquisition of Matamata Country Lodge a strong example. RAD acquired 40 retirement units and 85 care beds at Matamata Country Lodge for NZ$17.1m, a cost per unit/bed of ~NZ$137k (well below replacement cost). We expect similar opportunities as other industry participants continue to grapple with challenging economics.
3. **Catalyst 3: Corporate activity.** On 31 May 2024, Berridge Spencer's investment vehicle, Windhaven Care Holdings, disclosed a 10.6% stake in RAD it had bought at $0.12 per share, making it the second-largest shareholder in the company. While reporting no current plans to increase its stake or take the company private, we see the possibility of this new shareholder increasing its position over time. We expect a significant takeover premium in a potential takeover scenario. In December 2023, ARV announced it had declined a NZ$1.70 per share bid from an offshore infrastructure fund. The bid represented more than a >70% premium to the trading price on the announcement day.

Risks

We identify several risks to our investment thesis and valuation. These include:

- Prolonged economic downturn impacting demand, particularly for PACs.
- A weaker than expected NZ property market.
- Unfavourable government policy shifts and funding adjustments.
- Disruptions from natural disasters, pandemics, or operational failures.
- Variations in population growth, migration patterns, and family structures.
- Negative publicity from incidents or perceived shortcomings in care quality.
- Ability to attract and retain skilled care professionals.
- Market competition intensifying as the trend towards high-acuity and specialist care progresses.

Sensitivity analysis

Our valuation methodology is sensitive to modelling inputs and assumptions. We provide sensitivity analysis around some of these key inputs — terminal growth rate (TGR), cost of equity (Ke) and weighted average cost of capital (WACC) — and assumptions below.

Figure 23. DCF sensitivity to WACC and TGR

		TGR				
		0.5%	1.00%	1.50%	2.00%	2.50%
	8.6%	0.33	0.36	0.40	0.45	0.51
	9.1%	0.26	0.29	0.33	0.37	0.41
WACC	**9.6%**	0.21	0.23	0.26	0.30	0.33
	10.1%	0.16	0.18	0.20	0.23	0.26
	10.6%	0.11	0.13	0.15	0.18	0.20

Source: Forsyth Barr analysis

Figure 24. DDM sensitivity to Ke and TGR

		TGR				
		0.5%	1.00%	1.50%	2.00%	2.50%
	9.0%	0.29	0.30	0.31	0.33	0.34
	9.5%	0.28	0.29	0.30	0.31	0.32
Ke	**10.0%**	0.27	0.28	0.29	0.30	0.31
	10.5%	0.26	0.27	0.27	0.28	0.29
	11.0%	0.25	0.26	0.26	0.27	0.28

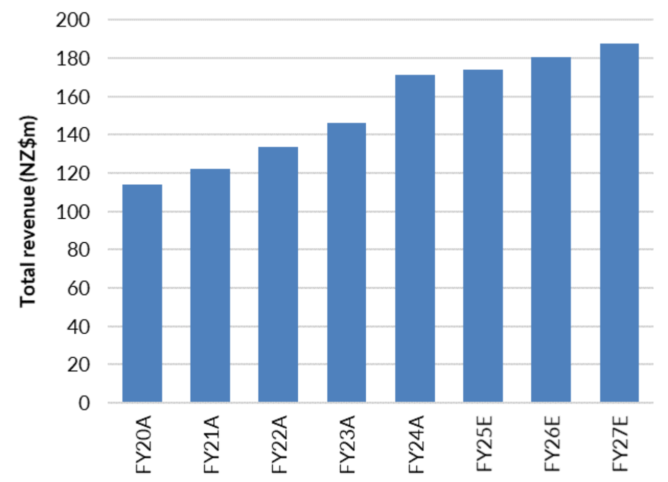
Source: Forsyth Barr analysis

Section 2: Radius Care overview

Radius Residential Care (RAD) carves a niche in NZ's residential retirement and care industry by focusing on providing high-quality residential aged care services but with retirement assets. Established in 2003, RAD has grown to become one of NZ's largest providers of aged care services, with a nationwide presence. We analyse the following key areas of RAD's business:

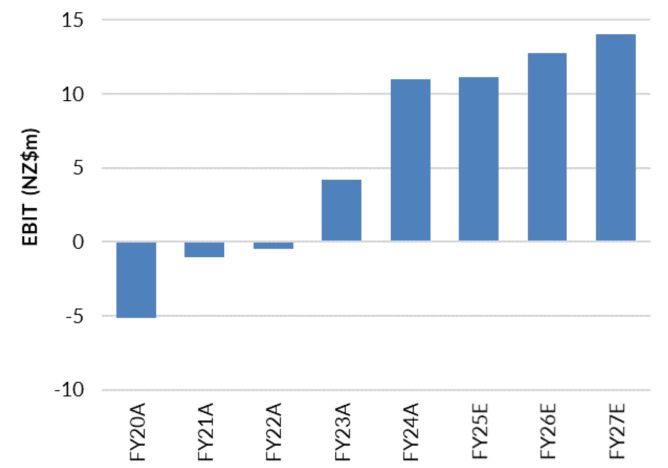
1. **A care focused operating model with industry leading profitability:** At the core of RAD's operations is a commitment to delivering exceptional care and support to older New Zealanders. RAD operates a network of care facilities, offering services tailored to residents' diverse needs. These services include rest home care, hospital-level care, dementia care, and respite care. RAD's focus on care has translated into industry-leading profitability and consistently high occupancy rates, evidenced by its 92% care bed occupancy and NZ$24.7k EBITDAR per care bed in FY24. Alongside its care focus, we identify four key drivers of RAD's high relative level of care profitability. These are: (1) its care portfolio is skewed towards high-acuity services which are higher margin, (2) its scale, both at a national level and facility level, (3) RAD's hyper-focus on efficiency, and (4) premium accommodation charges.
2. **Diverse portfolio of aged care and retirement assets spread around New Zealand:** RAD has established a nationwide network of care facilities in major cities and regional centres, which it operates under a mixed ownership and leasing model. While RAD owns approximately half of its beds (~866), it leases the remaining (~923) from several third-party owners. This approach offers financial flexibility, allowing RAD to grow without significant upfront capital expenditure. It also improves the predictability of further earnings. However, it does comes with the added responsibility of managing substantial lease liabilities, impacting long-term financial planning and potentially hindering operational agility compared with fully-owned asset models.
3. **Balance sheet and gearing:** RAD has a significant net debt position, including lease obligations of ~NZ$120m. While gearing is elevated, we think RAD's cash flows will comfortably support both a modest development programme and dividends, in accordance with its declared dividend payout policy.
4. **Cash flows and development pipeline:** RAD generates robust cash flows from ongoing operations. It also differentiates itself from peers by not being a large scale developer with a capital hungry pipeline. Despite this, RAD has capitalised on opportunities within its mixed ownership and leasing model. Its 2021 acquisition of four previously leased properties highlights its ability to identify and acquire strategic assets with future development options attached.

Figure 25. RAD — Total revenue



Source: Company, Forsyth Barr analysis

Figure 26. RAD — EBIT

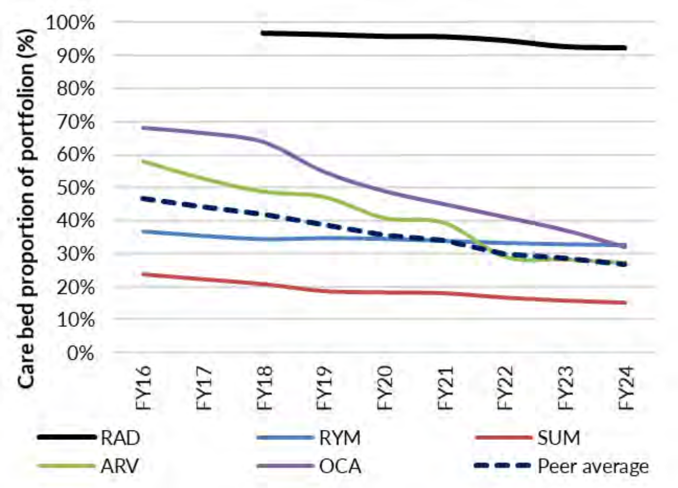


Source: Company, Forsyth Barr analysis

A care focused operating model with industry leading profitability

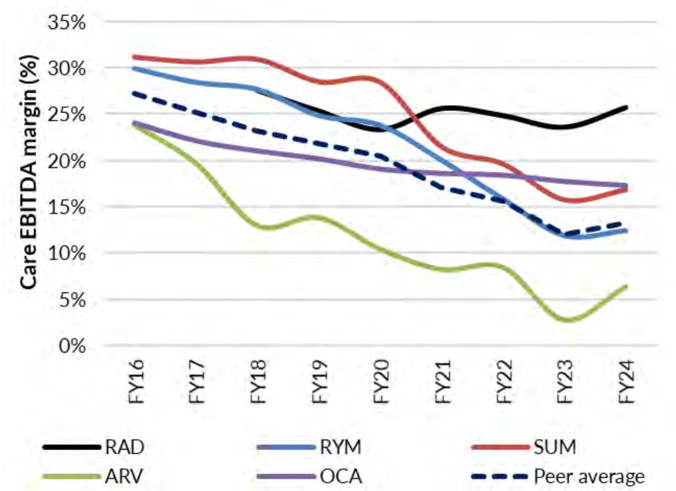
RAD's aged care and retirement assets portfolio is highly oriented towards care. In FY24, care beds constituted ~92% of its portfolio, with retirement units making up a much smaller share of the asset base. By contrast, care beds comprise just ~27% of the portfolios of RAD's listed peers on average. The concentration of care within RYM, SUM, ARV and OCA portfolios has been declining over the last eight years as care profitability has collapsed and the economic feasibility of building new care beds has deteriorated dramatically. Average care EBITDA margins for RAD's listed peers (based on Forsyth Barr estimates) have declined from >25% in FY16 to ~13% in FY24, as government funding has failed to keep pace with rampant cost inflation. However, RAD has been able to achieve industry-leading care profitability, with EBITDA margins of ~26%. Its superior care profitability is predicated on its care focus and: (1) a portfolio of assets which are tilted towards high margin acuity services, (2) its scale as one of the largest care operators in NZ, (3) its hyper-focus on efficiency, including its internal staff recruitment agency, and (4) strong levels of premium accommodation charges. We explore these four drivers of profitability below.

Figure 27. RAD has a high concentration of care beds in its portfolio relative to its listed aged care peers



Source: Company reports, Forsyth Barr analysis

Figure 28. RAD's care profitability is robust relative to its listed aged care peers*

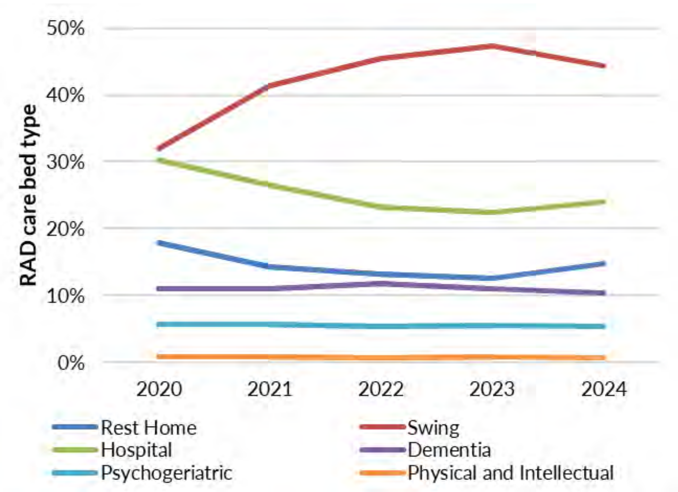


Source: Company reports, Forsyth Barr analysis *Peer margins are Forsyth Barr estimates

Driver #1: Portfolio tilted towards high margin high acuity services

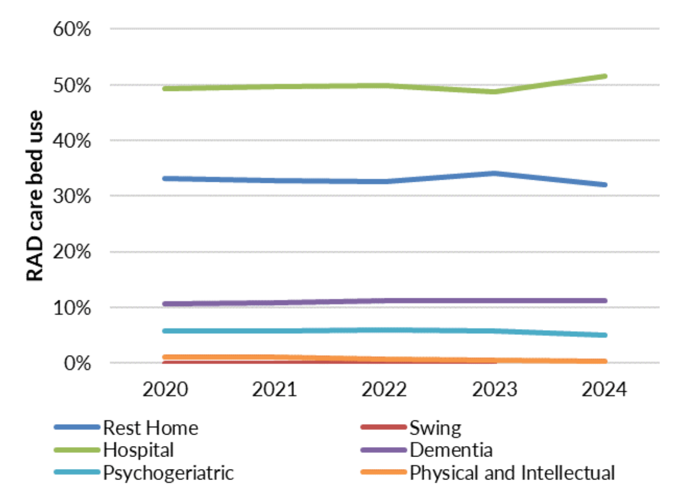
A key component of RAD's differentiated care offering is the composition of its care bed portfolio. RAD's portfolio of care beds is geared toward high-acuity patients — those who require specifically high levels of care and monitoring. In FY24, ~85% of RAD's care beds were certified for high-acuity services (and ~67% used for high-acuity services), including hospital-level, dementia, psychogeriatric, and physical and intellectual care. High-acuity beds are higher margin than rest-home beds, with a 2019 report from Ernst and Young estimating that hospital beds, in particular, are ~2x more profitable on an EBITDA per bed metric.

Figure 29. RAD — Care bed type



Source: Company, Forsyth Barr analysis

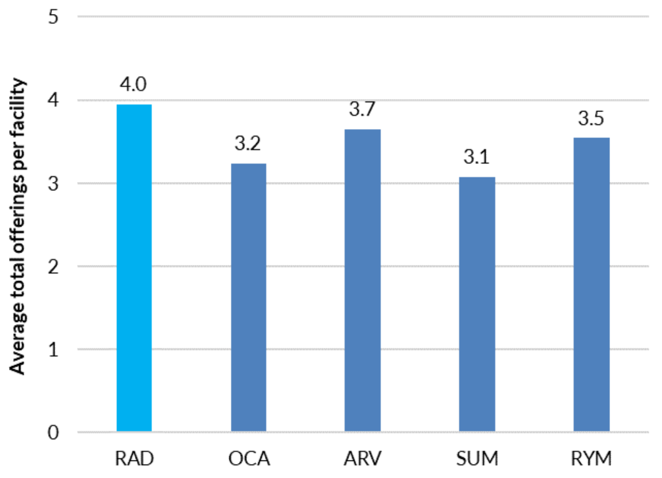
Figure 30. RAD — Care bed use



Source: Company, Forsyth Barr analysis

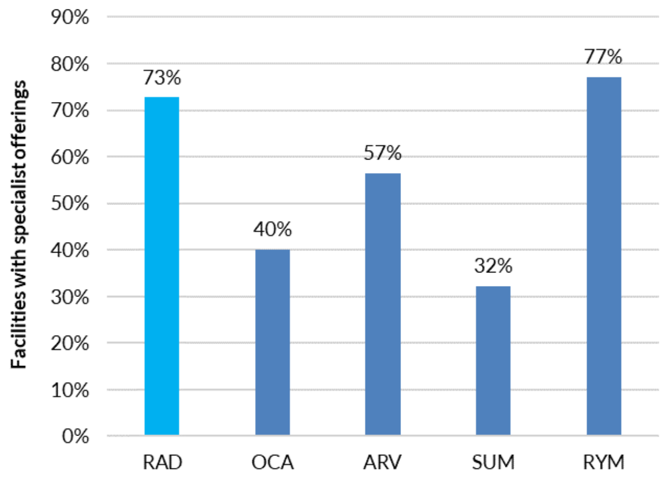
Data from the latest MOH aged care facility audit reports shows that RAD offers the most diverse range of specialist services at its facilities. On average, RAD's facilities offer 4.0 different services versus the industry average of 3.5. The majority of RAD's care facilities (~73%) have at least one specialist offering, compared to its listed peers that on average have only ~51% of facilities with specialist offerings. RYM is the only peer with a higher concentration of facilities with specialist offerings.

Figure 31. Industry specialist offerings per facility



Source: Ministry of Health, Forsyth Barr analysis

Figure 32. Industry % of facilities with specialist offerings

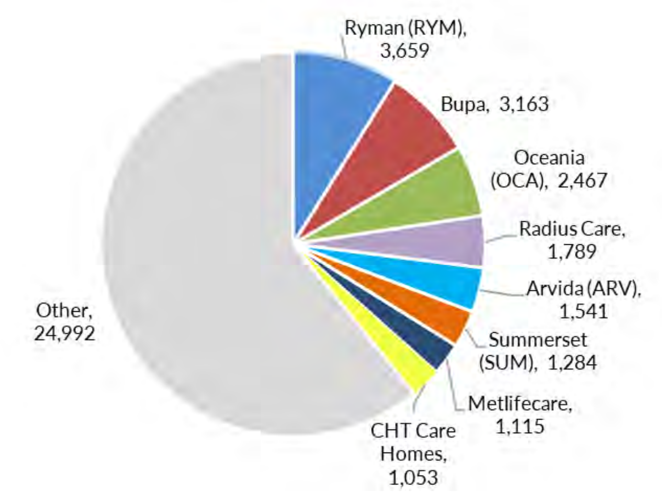


Source: Ministry of Health, Forsyth Barr analysis

Driver #2: Scale

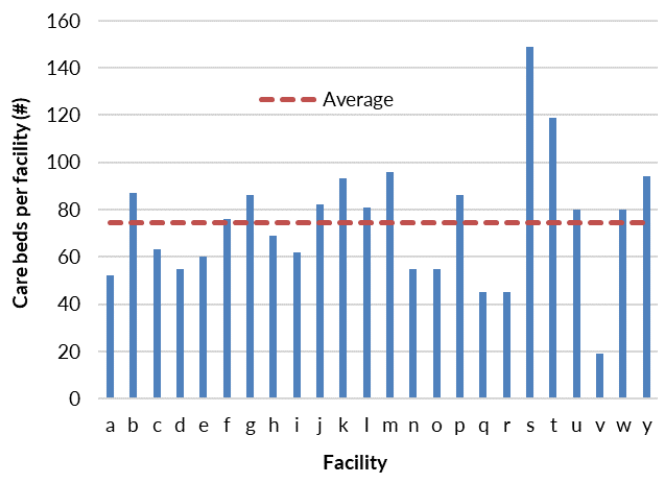
A key contributor to RAD's industry-leading profitability is its scale. RAD is one of the largest care operators in NZ, with 1,789 care beds across 23 facilities around the country. This gives it a ~4% share of the care market and makes it the second-largest listed operator by the number of care beds (OCA has a large number of care suites). At the group level, RAD can leverage its scale and nationwide network to improve the efficiency of its operations. However, the facility-level scale is also key. RAD's care facilities range in size from 45 to 149 beds, meaning facilities are large enough to be economically viable but small enough that RAD can maintain a lean and efficient operating model. By comparison, many family and privately owned care homes would have less than 45 beds, while some care homes operated by RAD's listed peers may have upwards of 200 care beds.

Figure 33. RAD is one of NZ's largest care operators



Source: Company reports, ACA, Forsyth Barr analysis

Figure 34. RAD's facilities have ~75 beds on average



Source: Company, Forsyth Barr analysis* facility V is Millstream apartments

Driver #3: Hyper-focused on efficiency

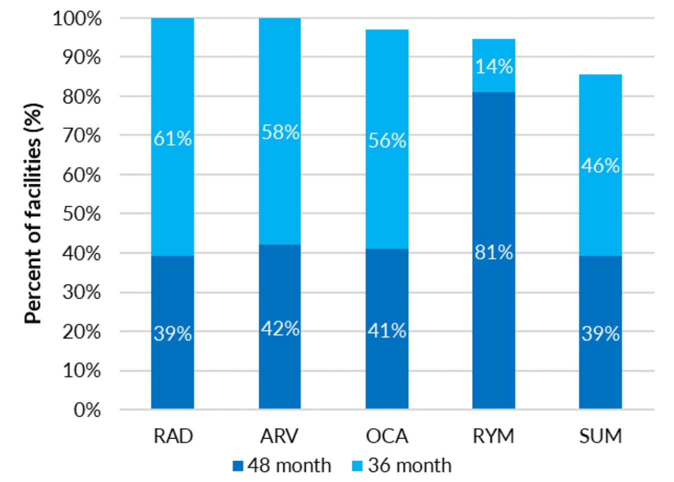
RAD's scale (see the previous section), care focus and experience with delivering care services enable it to be an efficient operator. By contrast, other industry participants are either more focused on retirement and development (listed players), or focused on care but sub-scale and resource constrained (family and privately owned facilities). While RAD takes a heightened commercial approach to operating its care facilities, this does not come at the cost of lower quality care. All of RAD's 23 age care facilities have received either a 48-month or 36-month certification followings audits from the MOH (see Figure 36).

As employee costs are ~73% of RAD's total operating expenses, management of this item is integral to maintaining profitability. A key component of RAD's strategy for managing employee costs revolves around its RConnect Bureau. RConnect is RAD's internal staff recruitment agency, which enables it to efficiently source essential staff and reduces external costs. It also creates additional revenue, albeit minor, as RAD acts in a recruitment role for other aged care facilities.

Figure 35. RAD's employee costs have been stable around ~70% of operating expenses

Source: Company reports,Forsyth Barr analysis

Figure 36. All of RAD's care facilities have either a 36-month or 48-month certification from the Ministry of Health

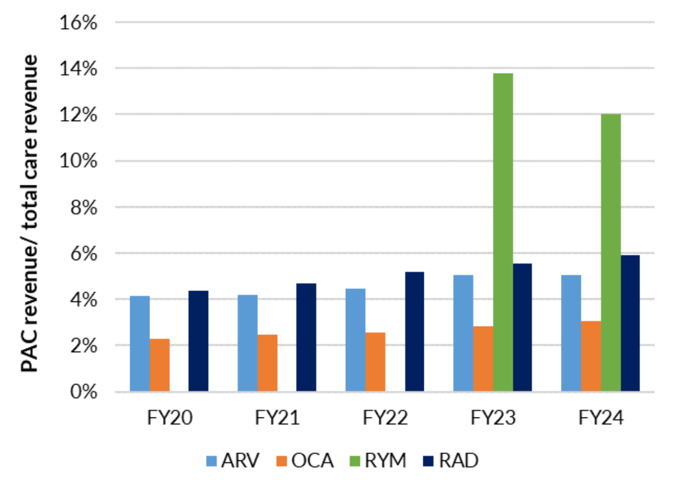


Source: Ministry of Health, Forsyth Barr analysis

Driver #4: Premium Accommodation Charges (PACs)

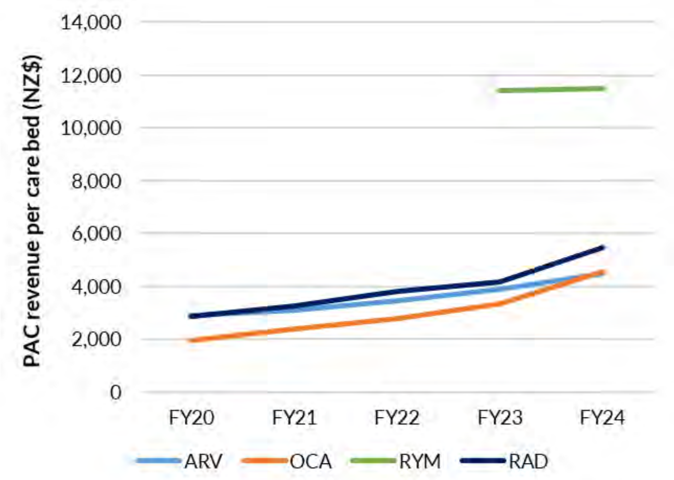
PACs are levied for superior room features and additional services not covered under standard care provisions. Because these charges are unregulated and not covered by government funding, they are generally margin accretive. RAD's PAC revenue has roughly doubled from NZ$4.9m in FY20 to NZ$9.8m in FY24, driven by significant gains in PACs per bed and minor increases in beds with a PAC charge. While industry disclosure is limited, our analysis shows that PACs constitute more of RAD's total care revenue (~6%) than peers ARV and OCA (see Figure 37). Similarly, RAD generates greater PAC per care bed than both peers (see Figure 38). RYM has the strongest PAC model, although this has not translated to profitability. No data was available for SUM.

Figure 37. Industry premium accommodation charges as a percentage of total care revenue



Source: Company reports, Forsyth Barr analysis

Figure 38. Industry premium accommodation charges per care bed



Source: Company reports, Forsyth Barr analysis

Diverse portfolio of aged care and retirement assets spread around New Zealand

RAD has a portfolio of 1,789 care beds and 148 retirement units across 23 care facilities and four retirement villages around NZ. It has facilities in most major regions of the country, with the biggest presence in the Waikato (483 care beds or units), Canterbury (385) and Bay of Plenty (331) as seen in Figure 40. On average, RAD's 23 care facilities have ~75 beds. The smallest of RAD's care facilities has 45 beds, while the largest has 149. Its retirement villages range in size from 22 to 54 units. While RAD is a care-focused operator, its retirement assets: (1) diversify its revenue base (retirement contributed NZ$4.5m of EBITDA in FY24), and (2) are constructive for building a continuum of care model, where residents pass through from independent living to assisted care.

Mixed ownership/leasing model

RAD employs a mixed ownership/leasing model for its care assets, with ~52% of its care beds leased from third-party owners. Its lease contracts have an average current term of 17.7 years and an average time to final expiry of 24.3 years. We assume that most of its leases are structured around CPI-level annual increases. Adopting a leasing model benefits RAD by reducing the maintenance capex needed to upkeep the facilities' structure over the lease term. This approach helps in smoothing out expenditures, making financial planning more predictable and manageable.

Figure 39. RAD — Owned care beds and retirement units

Facility	Location	Care beds	Retirement units
St Helenas	Christchurch	52	-
Thornleigh Park	New Plymouth	87	-
Lexham Park	Katikati	63	-
Heatherlea	New Plymouth	54	-
Taupaki Gables	Kumeu	60	-
Windsor Court	Ohaupo	76	-
Elloughton Gardens	Timaru	86	-
Clare House	Invercargill	69	-
Clare House Village	Invercargill	-	26
Peppertree	Palmerston North	62	-
St Joans	Hamilton	82	-
Fulton Home	Dunedin	93	-
Windsor Court Village	Ohaupo	-	22
Elloughton Grange Village	Timaru	-	54
Matamata Country Lodge	Matamata	81	-
Matamata Retirement Village	Matamata	-	46
	Totals	**865**	**148**

Source: Company, Forsyth Barr analysis

Figure 40. RAD — facility breakdown by geography

Source: Company, Forsyth Barr analysis

Figure 41. RAD — Leased care beds and retirement units

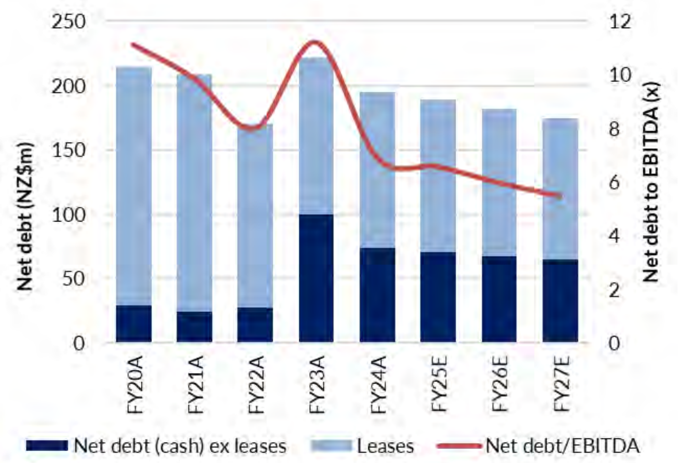
Facility	Location	Care beds	Retirement units	Current lease term (years)	Time to next renewal (years)	Rights of renewal	Time to final expiry (years)	Landlord
Kensington	Hamilton	96	-	10	0.1	2 x 10 yrs	10.1	A
Potter Home	Whangarei	55	-	20	5.6	2 x 15 yrs	35.6	B
Rimu Park	Whangarei	55	-	20	5.6	2 x 15 yrs	35.6	B
Waipuna	Auckland	86	-	30	22.8	-	22.8	C
Hampton Court	Napier	45	-	10	4.9	-	4.9	D
Baycare	Northland	45	-	12	2.0	3 x 12 yrs	38.0	E
Matua	Tauranga	149	-	30	18.6	-	18.6	F
Althorp	Tauranga	119	-	15	4.4	3 x 10 yr	34.4	G
Millstream	Ashburton	80	-	35	27.3	-	27.3	H
Millstream Apartments	Ashburton	19	-	5	0.4	2 x 5 yrs	10.4	H
Glaisdale	Hamilton	80	-	15	8.2	2 x 15 yrs	38.2	I
Hawthorne	Christchurch	94	-	10	6.1	2 x 10 yrs	16.1	J
	Totals	**923**	**0**					
			WALT	**17.7**	**8.8**	**-**	**24.3**	**-**

Source: Company, Forsyth Barr analysis

Balance sheet and gearing

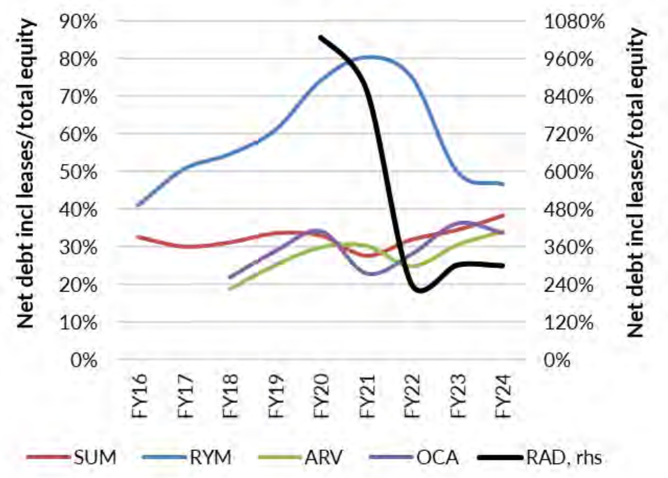
RAD has a significant net debt position of ~NZ$195m, including NZ$121.1m of leases. This net debt position is more than 3x as large as the equity base in RAD's business, meaning RAD is materially more leveraged than its listed peers (who have also struggled with debt management recently) on this measure. However, the net debt to EBITDA ratio of ~7x is more comparable to its peers, which are all in the range of 6x to 8x. The level of debt in RAD's business reflects: (1) investment into expansion (RAD has added 107 care beds and 93 units since FY18), and (2) the conversion of previously leased sites into owned sites where appropriate to do so. We view both of these strategies as rational. However, given RAD's significant net debt position, prudent management of its debt obligations will be crucial to the sustainability of its future operations.

Figure 42. Including leases, RAD has a significant net debt position of ~NZ$195m



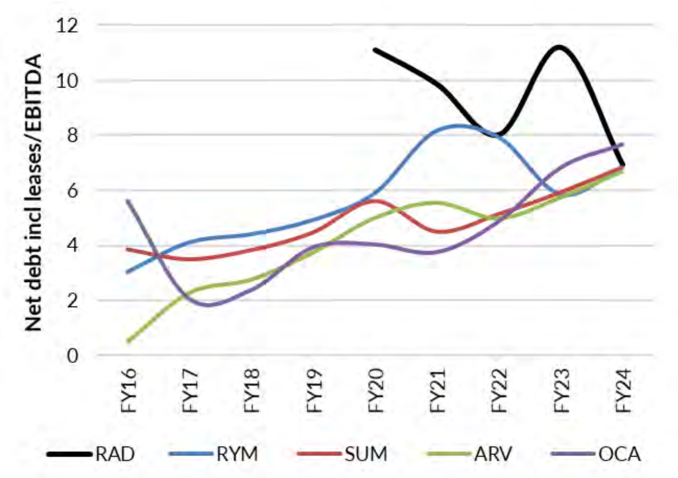
Source: Company, Forsyth Barr analysis

Figure 43. Net debt including leases is ~300% of equity versus 30% to 40% for its listed peers



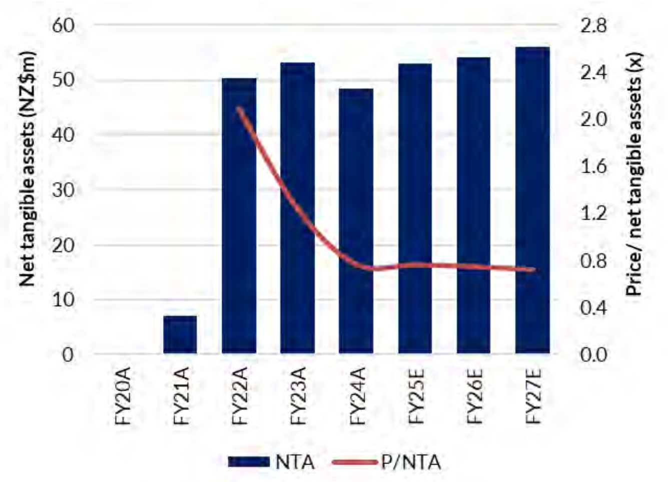
Source: Company reports, Forsyth Barr analysis

Figure 44. RAD's net debt including leases/EBITDA is ~7x, in-line with its listed peers



Source: Company reports, Forsyth Barr analysis

Figure 45. RAD has net tangible assets of ~NZ$50m and trades at ~0.8x P/NTA



Source: Company, Forsyth Barr analysis

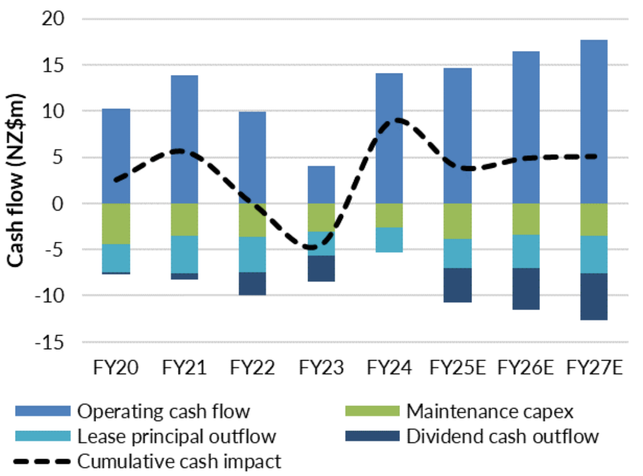
We expect RAD to be able to comfortably manage its debt obligations

RAD generates solid cash flows due to the robust profitability of its care operations. In four of the last five years (with FY23 the outlier), RAD has generated sufficient cash flows to cover: (1) its total interest costs, (2) principal elements of lease repayments, and (3) maintenance capex requirements, providing some scope for RAD to reduce gearing with residual cash. Unlike its listed peers, RAD is not a large-scale developer and is not engaged in capital-intensive projects. RAD has also demonstrated a willingness to sell down assets to reduce debt. In January 2024, it completed the sale of its Arran Court facility for ~NZ$19m and used the proceeds to repay existing debt. The Arran Court sale will significantly reduce RAD's interest costs in FY25 and beyond, reducing the burden of debt.

Cash flows and development pipeline

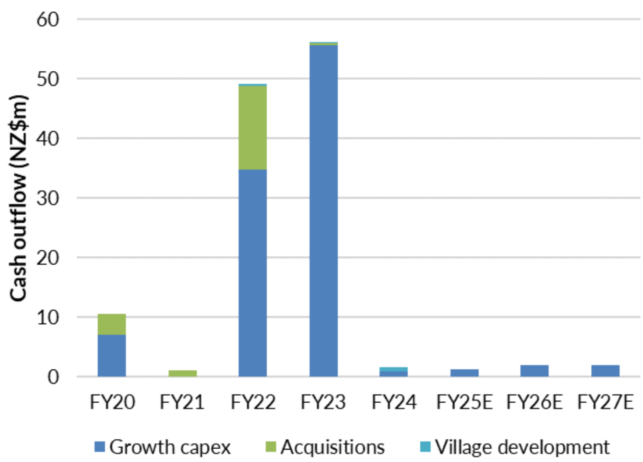
Despite its significant cash costs, RAD has historically generated sufficient cash to fund its ongoing operations. With operating cash flows improving markedly in FY24, we expect this to continue as maintenance capex and principal elements of lease repayments remain relatively flat. Importantly, RAD should also be able to fund its cash dividend payments from its ongoing operations on our forecasts. As RAD does not have a capital-hungry development pipeline, it should be able to use additional cash to reduce leverage or to execute its targeted growth strategy. In recent years RAD has funded its expansion through debt and equity. However, we expect growth investment to moderate in coming periods as management focuses on paying down debt and optimising the existing portfolio.

Figure 46. We expect RAD to generate sufficient cash flows to cover its operational obligations and dividends



Source: Company, Forsyth Barr analysis

Figure 47. RAD has invested heavily in expansion over the last five years, we expect this to moderate



Source: Company, Forsyth Barr analysis

Targeted growth strategy

RAD is not a large-scale property developer, making it an outlier in NZ's aged care and retirement industry. In the last decade, RAD's larger listed peers have employed a capital recycling model to capitalise on the underlying growth of NZ's property market and significantly expand assets. Theoretically, the cash proceeds from one village are used to begin the development of a new village, and this process is repeated. However, in practice this model has proven to be more challenging. RAD takes a more selective approach to expansion, with a three-pillar approach centred around: (1) targeted M&A, (2) brownfield development, and (3) greenfield development. At the core of RAD's expansion strategy is identifying and acquiring strong-performing leased sites and developing these sites to add value. Since June 2021, RAD has acquired ten properties, with eight previously leased sites.

Figure 48. Recent acquisition history

Announcement date	Property	Beds	Units	Consideration	Previously leased
31/08/2022	Matamata Country Lodge	81	46	NZ$17.1m	
30/03/2022	Arran Court	102		NZ$46.7m*	✓
30/03/2022	Fulton	93			✓
30/03/2022	Peppertree	62			✓
30/03/2022	St Joans	85			✓
11/10/2021	Clare House	69	26	NZ$14.5m	
8/07/2021	Taupaki Gardens	60		NZ$$31.4m**	✓
8/07/2021	Windsor Court	76			✓
8/07/2021	Elloughton Gardens	86			✓
8/07/2021	Heatherlea	54			✓
	Total	**768**	**72**	**NZ$109.7m**	

Source: Company, Forsyth Barr analysis

*Consideration represents the total sum paid for Arran Court, Fulton, Peppertree and St Joans

**Consideration represents the total sum paid for Taupaki Gardens, Windsor Court, Elloughton Gardens, and Hetherlea

Section 3: Aged care and retirement village industry overview

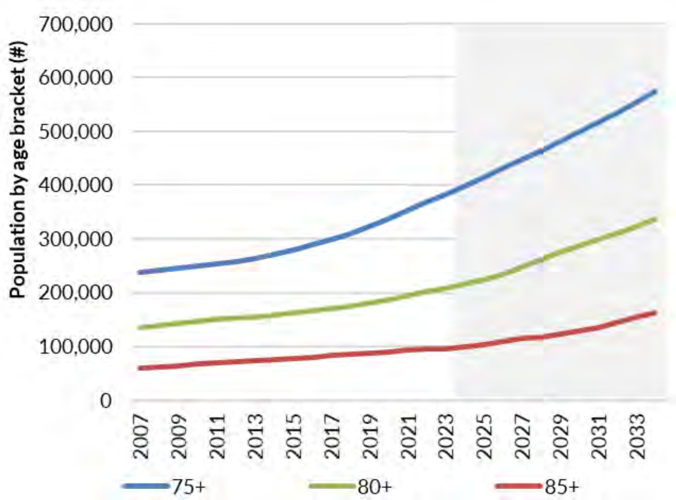
This section explores NZ's aged care and retirement village industries, highlighting key aspects and trends. We delve into the market structure, resident demographics, and the evolving business models. Our analysis examines the challenges and opportunities presented by NZ's ageing population and the potential impact on future demand for retirement and care services. The key takeaway from this analysis was that care infrastructure is unlikely to keep up with the needs of NZ's growing and ageing population, creating favourable demand tailwinds for industry participants.

3.1 Favourable underlying demand characteristics

The positive outlook for the aged care and retirement sectors in NZ is underpinned by strong demand tailwinds from a growing elderly population. NZ's elderly population is projected to grow rapidly in the coming decades, creating additional demand for aged care and retirement services. Alongside the other factors discussed below, NZ's evolving demographics will contribute to an expanding total-addressable-market (TAM) for aged care and retirement services for many decades to come. Factors contributing to increased demand for aged care and retirement services:

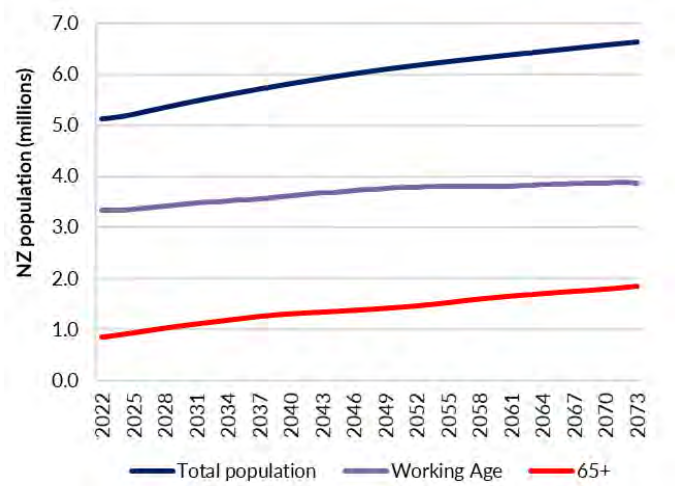
- **Demographics**: NZ is experiencing an ongoing demographic shift. With the baby boomer generation entering retirement age, the number of New Zealanders over 85+ will increase significantly (see Figures 49 and 50), from ~0.5m today to a projected 1.35m by 2050. Over the next fifteen years, the number of 85+ year-olds will double, and more than one in four of these people will need aged residential care.

Figure 49. NZ's ageing demographics are unavoidable



Source: Stats NZ, Forsyth Barr analysis

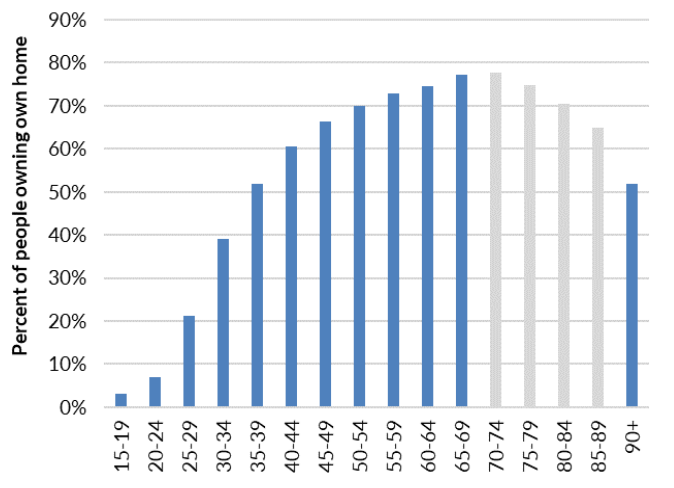
Figure 50. NZ's ageing population demographics



Source: Stats NZ, Forsyth Barr analysis

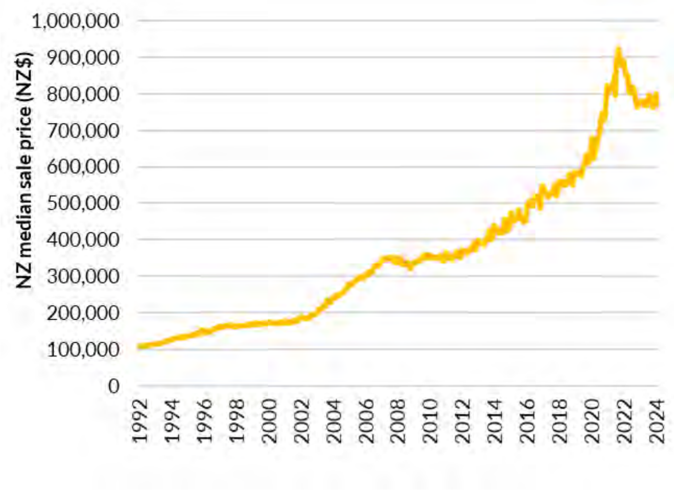
- **Migration**: The flow of migrants is the main driver of population growth in NZ. Consequently, migration increases the long-term demand for aged care and retirement offerings in NZ. However, most migrants are working age or children, meaning the short-term demand impact is moderate. The country has witnessed a steady net influx of migrants, which has seen NZ's population increase by ~+2% per annum for the last decade.
- **Increased longevity**: Advances in healthcare and living standards have contributed to longer life expectancies, driving a growing need for services and accommodation over extended periods.
- **Demand for specialist care**: There is a growing awareness and demand for specialist care services that cater to the specific needs of older individuals, including dementia care, rehabilitation services and palliative care. Retirement villages and aged care facilities are evolving to meet these specialist demands.
- **Decreasing family size and support structures**: Traditionally, families have provided care for older relatives at home. However, with smaller family sizes, busier lifestyles, and children often travelling internationally for work, this will become increasingly challenging in the future and lead to a greater reliance on the aged care industry to provide a solution along with the needed services.
- **Wealth effects:** Increasing household wealth, fuelled by high levels of home ownership (see Figure 51) and rising house prices (see Figure 52) has driven demand for premium retirement options. NZ's ageing population also has higher quality of life expectations for their retirement years, seeking high-quality accommodation, amenities and lifestyle options. An increasing desire for a comfortable and fulfilling retirement supports the demand for premium aged care and supplementary payments.

Figure 51. Proportion of home ownership by age



Source: Stats NZ, Forsyth Barr analysis

Figure 52. NZ median sale price (NZ$)

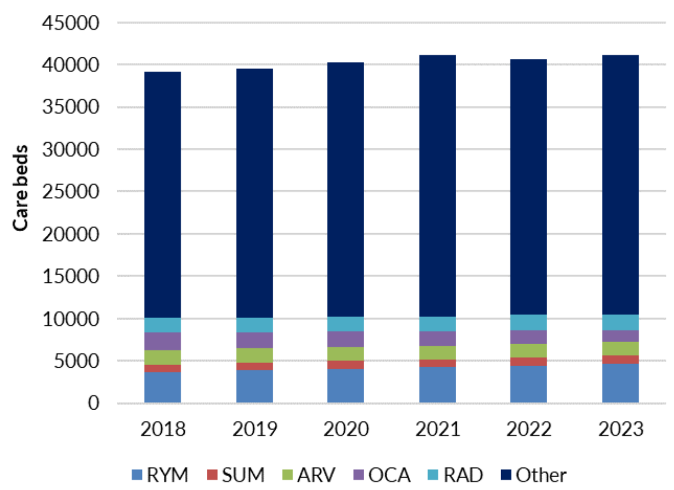


Source: REINZ, Forsyth Barr analysis

3.2 The aged care landscape in New Zealand

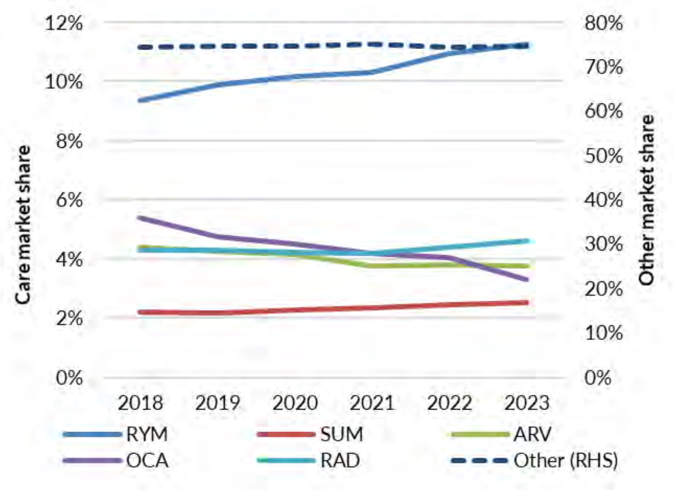
The NZ aged care market comprises ~41k beds across ~670 facilities (2023 Aged Residential Care [ARC] data), up from around 39k beds five years ago. The regional distribution of aged care beds in NZ and the distribution of NZ's 85+ population are closely aligned. For example, the Auckland region has ~27% of the national 85+ population from the most recent Census and ~27% of the national stock of care beds (representing ~11k). Care beds provide one of four levels of care, being: (1) rest home, (2) hospital, (3) dementia, and (4) psychogeriatric. The vast majority of these beds are paid for daily or weekly by district health boards (DHBs) or residents themselves via weekly fees or contracted under an Occupational Rights Agreement (ORA). Services in NZ's aged care industry are almost exclusively provided by private operators — both for care beds and retirement units. We highlight several key trends across the sector.

Figure 53. Breakdown of care beds in NZ by operator



Source: JLL, Company reports, Forsyth Barr analysis

Figure 54. Care bed market share by operator



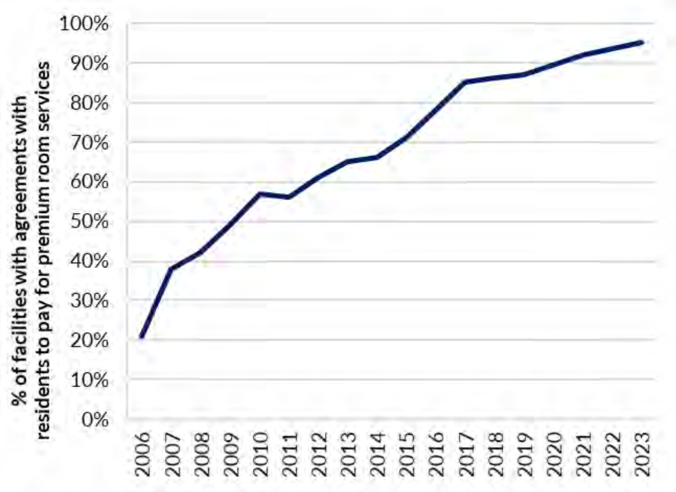
Source: JLL, Company reports, Forsyth Barr analysis

i) Insufficient government funding sees residents pay for premium offerings

Subsidies for standard care beds in NZ are set between approximately NZ$175 and NZ$300/day, based on the resident's level of need. Given the inherent vulnerability of this segment of the population, stringent standards govern everything from room dimensions to staffing ratios and facility amenities. The lack of funding and COVID-19 saw an extreme staff shortage within the care industry from 2021 to 2023. The reopening of NZ's borders has allowed for a significant inflow of qualified workers that has gone some way to alleviate the issue. It remains essential, however, that robust workforce planning and development is undertaken by operators. Staffing represents an ongoing challenge facing the industry. Like many healthcare services, aged care providers often struggle to attract and retain sufficiently qualified nurses, care assistants and support workers. An ageing workforce, competition for labour both domestically and abroad, immigration settings, and training pipelines are all contributing factors.

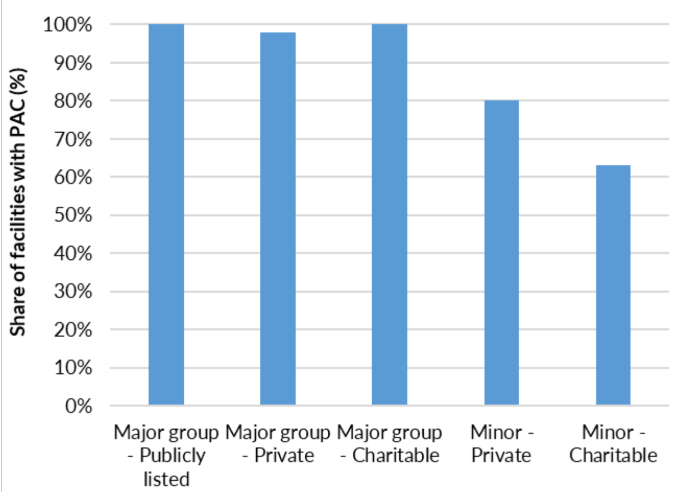
Recognising the demand for enhanced services, aged care providers have increasingly offered Premium Accommodation Charges (PACs) for amenities beyond regulatory requirements, such as private bathrooms or balconies. The pricing of PACs, driven by market forces, remains largely unregulated, with nearly all care facilities offering residents premium options (see Figure 55).

Figure 55. % of care facilities with residents paying for PAC



Source: ACA, Forsyth Barr analysis

Figure 56. % of care facilities with PAC (by operator type)



Source: ACA, Forsyth Barr analysis

ii) Trend towards urban areas

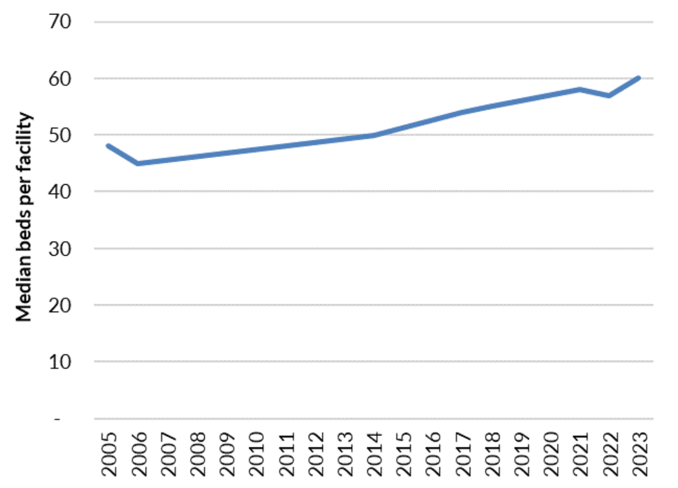
The trend towards urbanisation in the ARC sector is underscored by the distribution of facilities, with 49% located in major urban areas, 31% in provincial urban areas, and the remainder in rural localities. This migration is driven by rural facilities' inherent challenges, including their typically smaller size, which limits economies of scale, and generally older infrastructure, necessitating costly maintenance without the ability to levy premium accommodation charges. Furthermore, rural ARCs, which independents often own without the backing of a larger group or associated retirement village, grapple with staffing challenges more acutely than their urban counterparts. These facilities find it difficult to attract and retain staff, particularly migrant nurses and caregivers, who migrate to urban centres for better living conditions and job opportunities. Additionally, rural facilities generally face higher costs for goods and services, including medical services for residents, further exacerbating their operational challenges and making urban and provincial urban areas more attractive for ARC facility development and operation.

iii) Growing size of sites

Another trend observed in the ARC sector is the development of larger facilities, reflected in the median number of beds in Aged Care Association (ACA) member care facilities increasing from 55 to 60 over the past eight years (see Figure 57). Major groups developing new ARC facilities alongside retirement villages, as older, smaller facilities close down, has been the primary driver of this trend. This upward trend, however, may be nearing its end as major listed retirement village providers are signalling a strategic pivot towards scaling down the number of ARC beds in future developments due to underwhelming returns on investment.

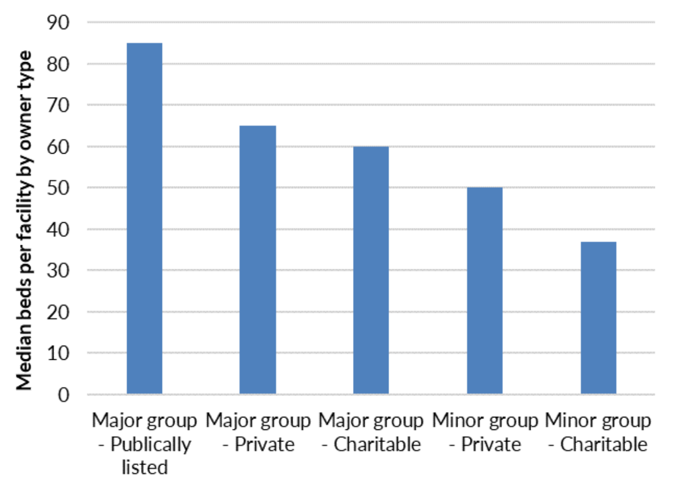
The largest care facilities have also seen a significant increase in bed capacity, with the top 10% now offering 112 or more beds, up from 99 in previous years. The last five years have seen a marked decrease in the number of facilities with less than 30 beds, while facilities in the 70–79 and 100–119 bed ranges have seen increases in their share of the total number of care facilities. There has been a clear move towards larger, more economically viable care settings offering a broader range of services and efficiencies not feasible in smaller establishments. The data also suggests that the listed companies own the larger care facilities (on average 85 beds), whereas the smaller charitable owners own smaller units with 37 beds on average (see Figure 58).

Figure 57. Median number of care beds per facility



Source: ARC, Forsyth Barr analysis

Figure 58. Median beds per facility by owner type (2023)

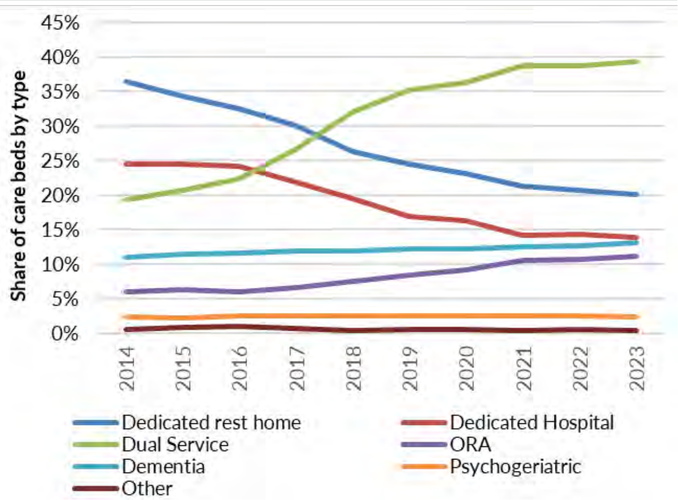


Source: ARC, Forsyth Barr analysis

iv) Growing trend towards dual service beds

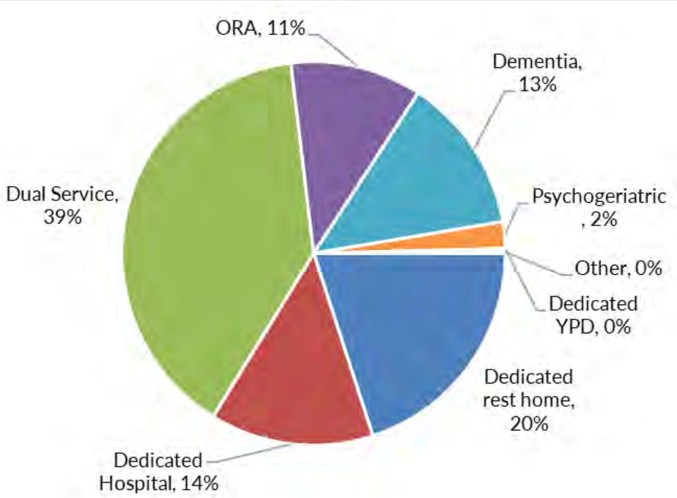
There is also a trend towards dual service beds, which now represent ~39% of the total supply. Because of this, there has been a decline in the supply of dedicated rest home and hospital beds. The move away from dedicated home care (~20%) and hospital beds (~14%) has been significant, especially over the 2017 to 2020 period (see Figures 59 and 60).

Figure 59. Share of care beds by service type



Source: ARC, Forsyth Barr analysis

Figure 60. Percentage of care beds by service type (2023)



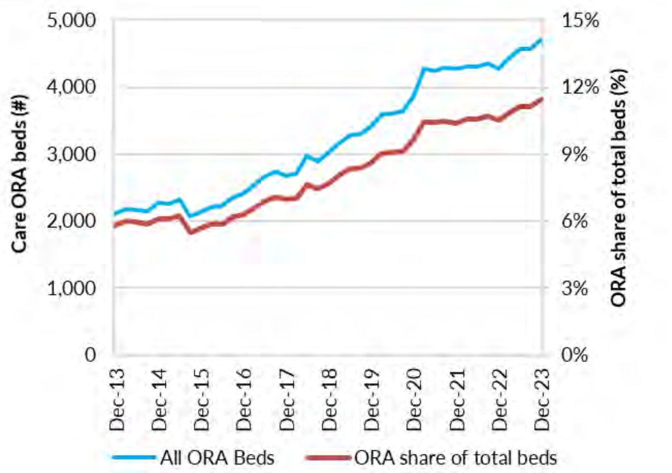
Source: ARC, Forsyth Barr analysis

v) Growing popularity of Care Occupational Rights Agreement (ORA)

Recently, the sector has seen the introduction of care suites akin to small apartments, capable of providing high-level care under an ORA. An ORA affords residents the right to occupy, understanding that the estate will recoup roughly 70% to 75%, depending on the operator, of the initial purchase price upon vacating. These suites typically range from around NZ$250k to NZ$500k. As per similar retirement village contracts, the provider retains the remaining 25% to 30% as a Deferred Management Fee (DMF), offsetting capital costs, maintenance and amenities. This model represents an evolution in aged care living, marrying the demand for premium, independent living options with the necessity of accessible, high-quality care.

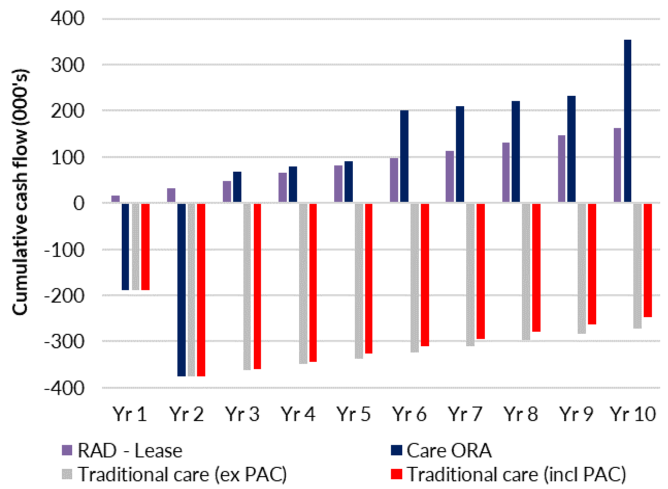
There has been a steady lift in the number of care beds, and percentage of care beds that operate/are sold under ORAs, which now represent ~11% of NZ's care beds (see Figure 61). Care ORAs are generally a premium care offering compared with traditional care beds and are structured similarly to an independent living unit (ILU) ORA. Several aged care operators have pivoted new care development towards care suites (or similar) sold under ORAs. This pivot is likely driven by a combination of poor profitability within standard care, increased expectations about standards from care residents and a wish to differentiate offerings. The shift to care suites sold under an ORA carries with it three main implications: (1) it increases the cash recovery of new build, (2) it improves the profitability of care, but (3) it reduces the cash conversion and predictability of earnings.

Figure 61. Growth in care ORA beds



Source: ACA, Forsyth Barr analysis

Figure 62. Care ORAs and leases are more attractive economic propositions for new developments



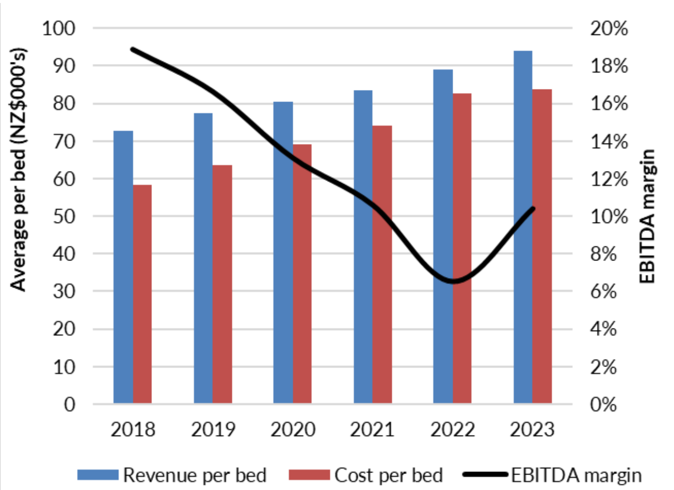
Source: Forsyth Barr analysis. Using ORA occupancy of ~64% and standard care occupancy 84%.

Three of the four listed aged care operators have pivoted new care development towards care suites (or similar) sold under an ORA. The reasons also relate to the increased expectations regarding standards from care residents and a wish to differentiate offerings. This development is primarily a reaction to the deteriorating cash recovery of capex across the industry (see Figure 62). While PACs have helped ease the pressure on margins from rising costs, they have done little to improve the ability to recycle cash. With higher capex per bed and longer lead times, as villages grow in size and especially in height, cash recovery of capex has deteriorated meaningfully across the listed universe.

vi) Economics providing few incentives to build sufficient new supply

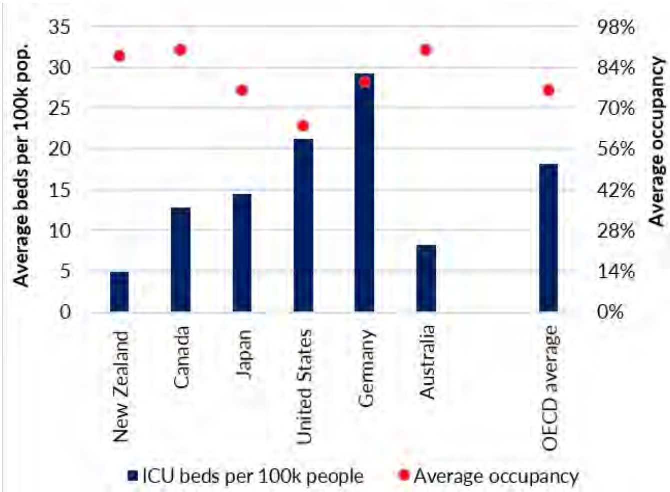
In NZ, care bed economics has become challenging, with the EBITDA margin per bed falling significantly from ~18% in 2018 to ~10% in 2023. Financial viability has been constrained by high operational costs, including staffing and regulatory compliance, alongside low and relatively fixed income streams from government funding and private payments. Given the industry structure, care operators rely heavily on government funding. As such, only some companies achieve reasonable profitability or a satisfactory return on investment from care beds, impacting the sector's capacity to expand or even modernise existing infrastructure. The logical response has been a collapse in the build rate for new care facilities. This trend is exaggerated in rural or provincial areas where the economics are not sufficiently supportive. Demographic movements see NZ needing at least 30k net new care beds over the next 15–20 years or about +2k added annually. This starkly contrasts the +2k total care beds added over the last decade, with ~1k beds having closed in marginal areas, disproportionally affecting those in: 1) provincial and rural settings, or 2) standard care beds.

Figure 63. Costs per bed vs revenues per bed*



Source: Company reports, Forsyth Barr analysis
*Data is sum of ARV, OCA, RYM, SUM,

Figure 64. Hospital utilisation and beds vs OECD peers



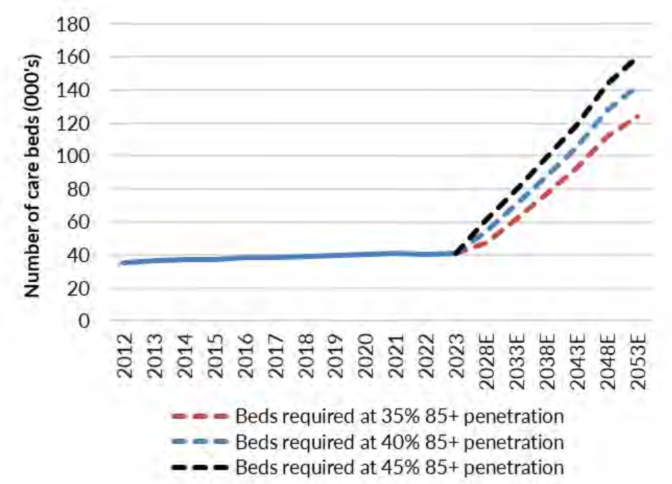
Source: OECD, Forsyth Barr analysis

NZ statistics reveal a notably low number of Intensive Care Unit (ICU) beds per capita compared with international norms. As a result, the utilisation rates of ICU beds in NZ are at the upper end of the spectrum among global comparisons (see Figure 64). This reality highlights an urgent need to improve the economics of the nation's non-government care infrastructure with threefold objectives: (1) to align more closely with global standards, (2) to ensure cost-effectiveness while maintaining high care quality, and (3) to meet the anticipated and escalating care requirements of its population.

Recognising that elderly care is fundamental to a welfare society, any government aspiring to stimulate substantial new care construction to address the burgeoning demand for aged care services might need to contemplate a subsidy boost of up to +30% over time. Such an enhancement would transform the economic landscape, making further investment in new care facilities more attractive and financially viable for providers. At considerably lower costs than those associated with acute hospital care provided by public hospitals. While the current National government is likely aware of the acute funding issues in aged care, resources are constrained given the challenging economic environment.

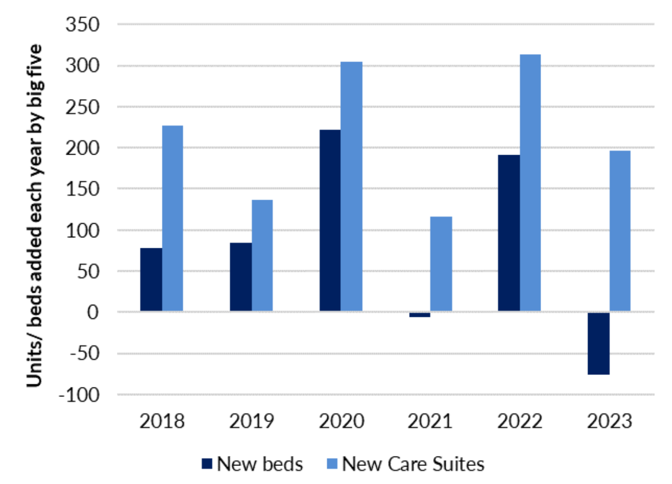
Meanwhile, given that many facilities are already built, some are vacant, and funding typically covers operational costs, keeping them operational remains financially feasible, even though the return on investment is currently minimal. However, as the occupancy of standard care beds approaches 100%, elderly individuals in need of care could face the prospect of being hospitalised in state hospitals (at a significantly higher cost to the government at around NZ$1,700 per night) or experiencing extended stays at home. This situation may become untenable over time as the nation's hospitals are already nearing capacity. Given the inevitability and predictability of the ageing population, we estimate the number of care beds required as the aged population increases, as seen in Figure 65, at stark contrast to the growth seen over the last decade.

Figure 65. Aged care beds required



Source: Stats NZ, ACA, Forsyth Barr analysis

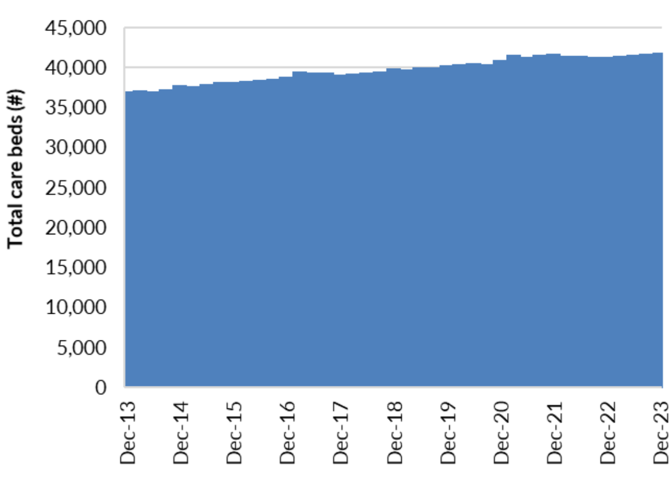
Figure 66. New care beds and suites added to supply*



Source: Company reports, Forsyth Barr analysis

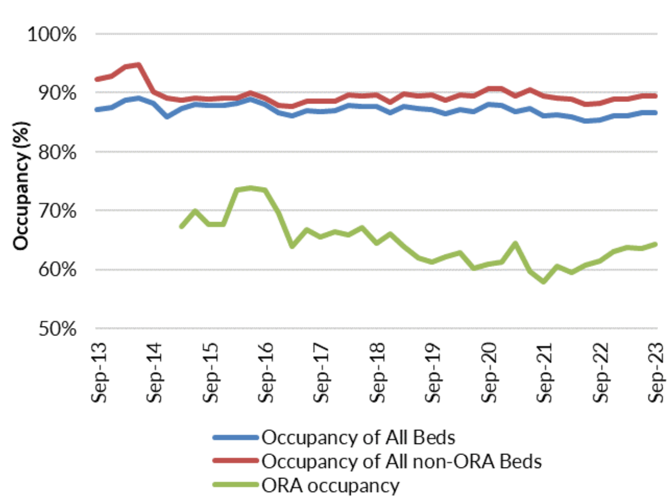
* Based on sum of RYM, ARV, OCA and SUM

Figure 67. National care beds total



Source: ACA, Forsyth Barr analysis

Figure 68. National care bed occupancy rates



Source: ACA, Forsyth Barr analysis

3.3 An overview of the New Zealand retirement village industry

The NZ retirement space comprises ~39k units across ~452 villages nationwide. This has grown substantially from around 22k units across ~350 villages in 2012, reflecting favourable incentives to build newer villages with greater scale and intensification. Given an average of 1.3 residents per retirement unit, an estimated ~51k reside in retirement facilities throughout NZ. The retirement village (RV) sector provides accommodation to people (typically >70 years of age) who, with minimal assistance, can live largely independently. This differentiates the 'retirement' segment slightly from the 'aged care' sector, which also provides residential aged care services (including rest homes, hospitals, and dementia-level care) to those who cannot live independently or require a higher level of assistance, see the prior section *3.1 The care landscape in New Zealand.*

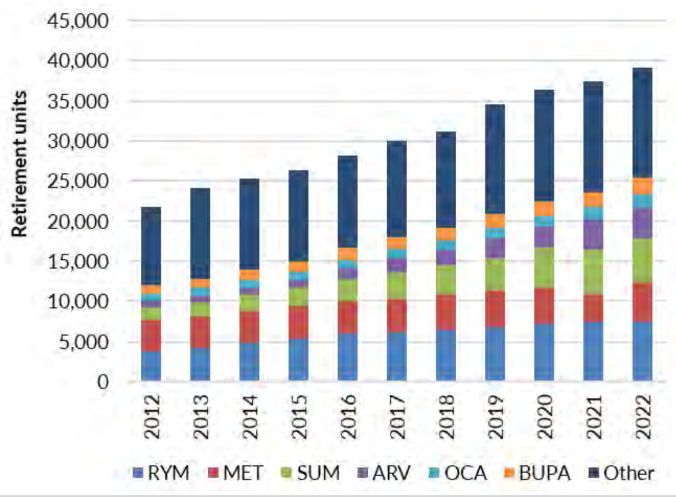
We highlight several key factors within the retirement sector:

a) Market structure

The RV market is dominated by six large players, four of which are listed — Ryman Healthcare (RYM) has 48 villages, Summerset (SUM) 38 villages, Arvida (ARV) 36 villages, and Oceania (OCA) 30 villages, along with unlisted players Metlifecare with 43 villages and Bupa with 34. The 'big six' have progressively taken market share over the past decade as these players have ramped up development and made acquisitions, moving from ~53% market share by units in 2013 to ~65% today.

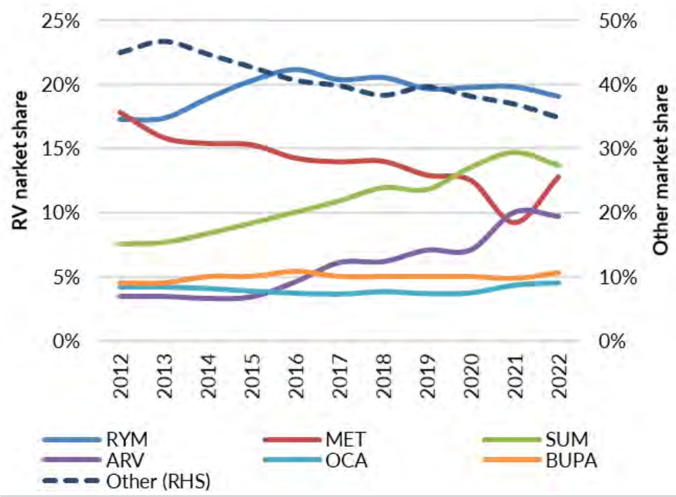
Most large operators in NZ provide retirement village and aged care services through an integrated model (a continuum-of-care) targeting the mid-to-premium end of the market. Minor differences in targeted segments are, however, seen across the players. RYM targets the mid-to-premium end of the market with a strong presence across NZ, with aged care services provided in all its villages under a traditional care bed model or a PAC. SUM also targets the mid-to-premium end of the market with more of a regional portfolio skew and focuses on villa units rather than higher-density products. It has aged care services in most villages and has pivoted care development towards care suites and memory care (dementia) to complement its traditional care services with a more premium offering. MET has more of a lifestyle focus than aged care, attracting younger residents. The smaller listed operators, OCA and ARV, offer both retirement and aged care services, with growth over recent years coming through a combination of: (1) brownfield expansion, and (2) acquisitions. Finally, Bupa focuses more on aged care than its other major retirement living peers.

Figure 69. Breakdown of RV units in New Zealand by operators



Source: JLL, Company reports, Forsyth Barr analysis

Figure 70. RV market share by operator



Source: JLL, Company reports, Forsyth Barr analysis

b) Retirement Occupational Rights Agreement (ORA)

Individuals living in an RV unit typically have a contractual right to occupy that unit (i.e. they do not own it) under an ORA arrangement. The most common ORA arrangement is a 'license to occupy', where the resident can live in the unit for life and access the village facilities and services. Under an ORA, when a resident exits the unit, the resident is refunded the initial license payment of the ORA, less any accrued DMF. The village operator benefits from any capital gains of that unit but is exposed to any capital depreciation or general maintenance capex when the unit is resold. Typically, a resident in an ILU will occupy its unit for seven to nine years before vacating (typically moving into the higher level of aged care facilities).

c) How do retirement village operators add value for shareholders?

The business model of the RV sector in NZ centres on four principles, these are:

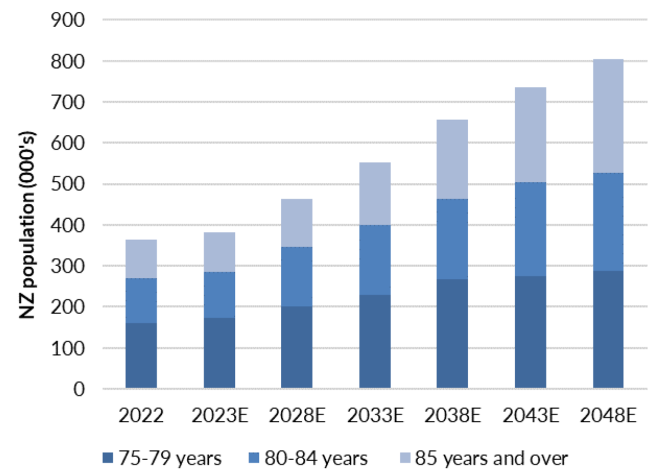
1. Limited (equity) capital commitment in relation to assets, as typically the business case for individual villages includes an expectation that ~100% of village capex is funded through the payment of non-interest-bearing ORAs by residents at the first sale. That capital is then recycled into the next village.
2. Village fees and care fees that cover the ongoing operational expense of running the village and providing services to residents.
3. Through the cycle, the increase in the value of the units in the village allows a free carry-on of increasing asset values.
4. The DMF covers the overhead costs of transition with a margin.

Over time, most NZ IFRS earnings relate to the revaluation of investment properties.

Key success factors relate to:

- **Development margins**: Development margins are where the price paid for the initial ORA price exceeds the cost of development (over which the ORA is allocated). The typical way the NZ RV operators report development margins relates to the cost of developing a specific unit, including land, but exclusive of common/shared facilities. The general idea is that the development margin should cover the cost of shared facilities and care facilities not sold under an ORA. On average, NZ RV operators report development margins of ~25%, which we estimate approximately covers the development cost of shared facilities.
- **Deferred Management Fees (DMF)**: The DMF is a cost to the resident deducted on exit of the unit based on a percentage of the initial purchase price of the ORA. The DMF accrues up to a maximum amount, typically 20% to 30% of the initial purchase price, over three or four years. The DMF contribution reflects a resident's contribution to the maintenance, management and upgrade of the village and corporate overheads. The DMF structure emphasises the importance of how long residents, on average, occupy units, and is why operators target an older cohort. Typically, the DMF is more than sufficient to cover the costs of transition, and as such, operators make a margin on DMF.
- **Resale gains**: Resale gains are at the model's core and essential to annuity earnings. These are 'gains' realised by the operator when a unit has appreciated in value over the tenure of the previous resident's occupation — typically seven to nine years in an independent living unit and two to three years in a care suite. It is not, however, a gain from an NZ IFRS perspective, as the unit is not sold, and the increased asset value is offset by an increased liability in the form of a resident loan. However, it does provide a positive cash flow.
- **Weekly village service fees**: Residents pay these fees to cover a portion of the village's general day-to-day operating costs. Overall, these costs typically represent a low proportion of total costs to residents.

Figure 71. New Zealand's elderly population is forecast to double over the next two decades



Source: Stats NZ, Forsyth Barr analysis

Figure 72. Retirement village living is becoming more popular

Source: JLL, Stats NZ, Forsyth Barr analysis

Appendices

Appendix 1: FY24 result highlights

RAD reported a robust FY24 result for the 12 months ending 31 March 2024, with underlying EBITDA rising +47% from FY23 to NZ$20.9m. The improved result at the underlying EBITDA level was driven by: (1) a +24% increase in underlying EBITDAR per care bed to NZ$24.7k annually, boosted by a ~10% funding increase from the MOH in July 2023, (2) a rise in resale gains from NZ$0.8m in FY23 to NZ$1.8m in FY24, and (3) strong performance from the Matamata Country Lodge facility which RAD acquired in August 2022.

Despite the strong underlying EBITDA result, FY24 reported NPAT loss increased from -NZ$2.1m in FY23 to -NZ$8.5m. The rise in loss reflected the impact of a one-off deferred tax adjustment relating to the depreciation of commercial buildings. NZ IAS 12 required recognition in FY24 of a one-off, non-cash deferred tax liability of NZ$11.3m, following the NZ government's decision to remove tax deductibility of depreciation on commercial buildings. Excluding this adjustment, NPAT would have been +NZ$2.9m. AFFO in FY24 was +NZ$7.4m, up +87% from FY23, enabling the board of directors to declare a fully imputed 0.7cps dividend.

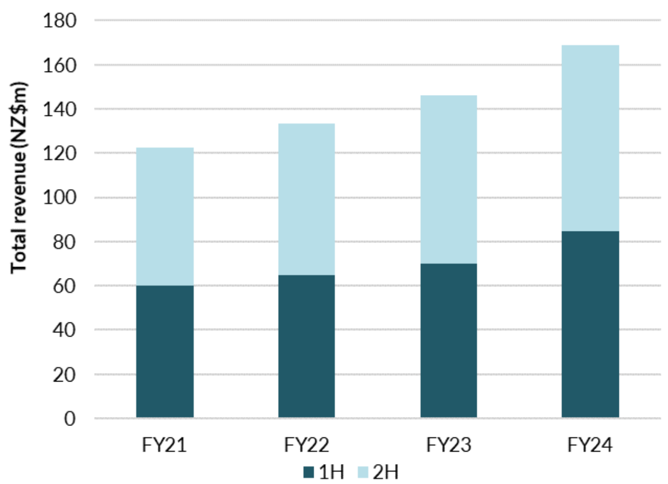
RAD provided qualitative guidance for 'continued growth in underlying EBITDA and other metrics in FY25'.

Figure 73. RAD—Income statement FY23 vs FY24 Actual

NZ$m	FY23	FY24	Change (%)
Revenue	144.47	168.74	+17%
Deferred management fees	1.80	2.50	+39%
Total revenue	**146.27**	**171.23**	**+17%**
Change in fair value of investment property	0.77	2.70	n/a
Government subsidy received	0.19	-	n/a
Interest income	0.07	0.14	n/a
Gain on acquisition of previously leased property assets	1.78	-	n/a
Gain on business acquisition	0.93	-	n/a
Total revenue and other income	**150.00**	**174.07**	**+16%**
Total expenses	(152.98)	(170.47)	+11%
Profit (loss) before income tax	**(2.98)**	**3.60**	**n/a**
Income tax expense	0.88	(12.09)	n/a
Profit for the period (NPAT)	**(2.11)**	**(8.49)**	**n/a**
Basic and diluted eps (cents per share)	(0.76)	(2.98)	n/a

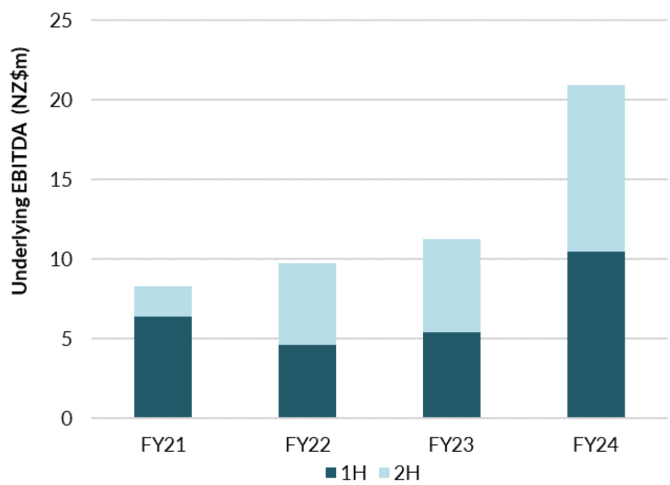
Source: Company, Forsyth Barr analysis

Figure 74. RAD — HY revenue



Source: Company, Forsyth Barr analysis

Figure 75. RAD — HY underlying EBITDA



Source: Company, Forsyth Barr analysis

Appendix 2: Company history

Figure 76. Company History

Date	Event
2003	Radius Care is founded with the purchase of the 54 care bed Heatherlea facility in New Plymouth. Radius Care began life as a division of the Radius Health Group with Brien Cree as CEO.
2008	By 2008, RAD had acquired 22 facilities, equating to 1,549 residents.
2010	Brien Cree led a management buyout to acquire the 80% shares they did not own. RAD became a standalone business.
2013	RAD commenced its first greenfield development at Elloughton Grange Village in Timaru.
2014	In late 2014, RAD underwent a shareholder restructuring. Knox Investment Partners became a key shareholder.
2020	RAD was listed on the NZX in December 2020 with a market capitalisation of ~NZ$140m.
2021	RAD announced an equity raise, seeking up to NZ$50m in capital to fund growth. NZ$30m was raised via a fully subscribed placement, and an additional NZ$8.2m was raised via a retail offer.
2021	In August 2021, RAD acquired the land and buildings of four aged care facilities it had previously leased from its landlord, Ohaupo Holdings Limited. Total consideration paid was $31.4m.
2021	In November 2021, RAD acquired the Clare House integrated care facility and retirement village in Waikiwi for NZ$14.5m.
2022	Andrew Peskett was appointed as RAD's CEO in February 2022.
2022	RAD acquired the land and buildings of four aged care facilities it had previously leased from its landlord, UCG Investments Limited. The total consideration paid was NZ$46.7m.
2022	RAD acquired Matamata Country Lodge and three neighbouring properties in September 2022 for NZ$17.1m.
2024	RAD sold its Arran Court facility in Auckland for NZ$19m in January 2024. The proceeds were used to pay down debt.

Source: Company, Forsyth Barr analysis

Appendix 3: Strengths, weaknesses, opportunities and threats

Figure 77. SWOT table

Strengths

- RAD's focused care model, distinct from competitors who often treat care as an add-on, ensures high-quality facilities and specialised care programmes.
- RAD's focused approach allows for optimised operations, leading to industry-leading EBITDAR per bed and high occupancy rates.
- RAD's nationwide network of care facilities and retirement villages ensures wide geographical coverage, catering to a broad spectrum of care needs across major cities and regional centres.
- Positioned to benefit directly from any government initiatives aimed at increasing sector funding, RAD stands to potentially enhance its financial performance further.
- Experienced leadership team capable of navigating the complexities of the aged care sector.

Opportunities

- The projected doubling of the 85+ demographic in NZ over the next few decades represents a growing demand for aged care services.
- Introducing more specialised care services and premium accommodation options may see a lift in premium accommodation charges (PACs).Investing in technology to improve care delivery and operational efficiency could enhance service quality and profitability.
- Opportunisitically acquiring further care facilities at below replacement cost.

Weaknesses

- Managing substantial lease liabilities and debt (~NZ$79m interest-bearing and NZ$180m lease liability) poses challenges to long-term financial sustainability.
- The mixed ownership and leasing model, while flexible, reduces control over properties and introduces complexity in financial modelling for investors.
- Rising living costs and supply chain disruptions impact operating margins, necessitating continuous efficiency improvements.
- Attracting and retaining skilled care professionals remains an industry-wide challenge, exacerbated by an ageing workforce and competitive labour market.
- The sector's highly regulated nature means legislative and funding model changes could disrupt operations and increase complexity.

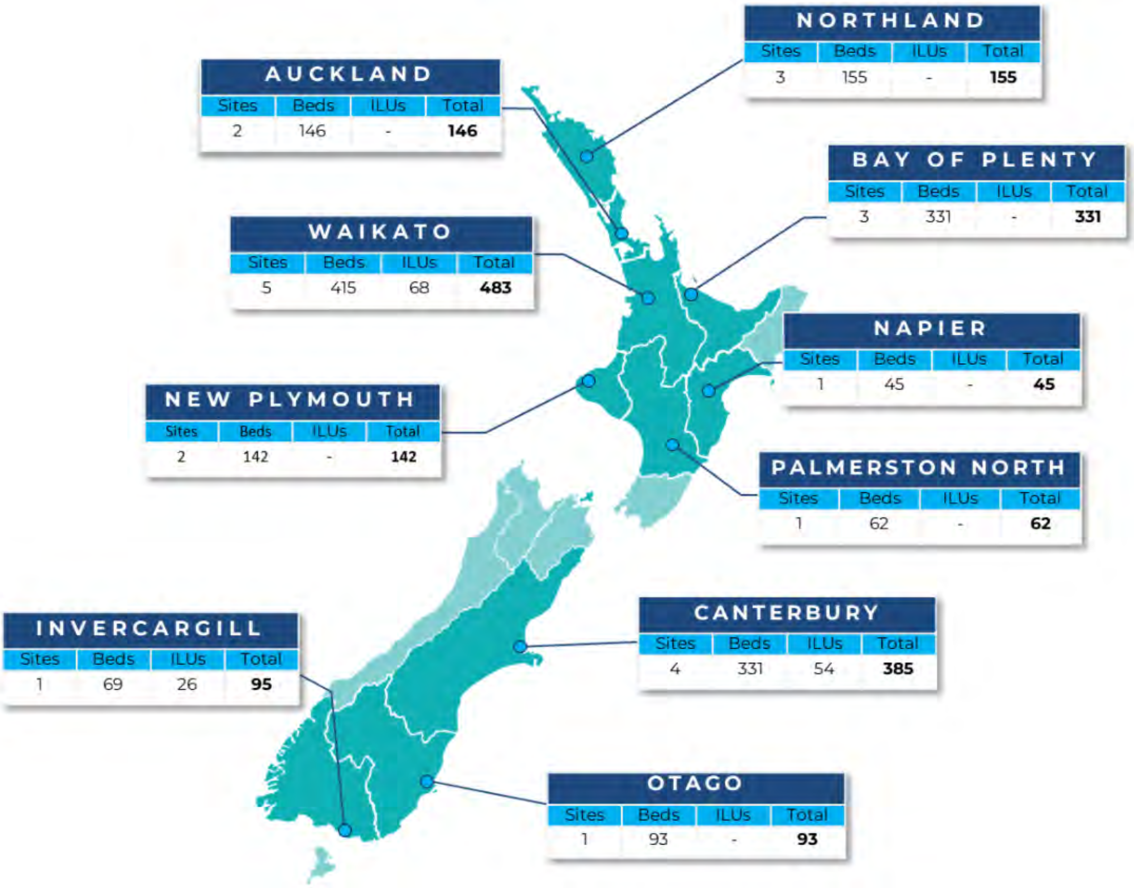
Threats

- Interest rate changes and economic downturns can affect property values, lease costs and consumer spending capacity.
- Government policy shifts and funding adjustments can impact profitability and operational costs.
- Potential disruptions from natural disasters, pandemics, or operational failures pose risks to continuity and financial performance.
- Variations in population growth, migration patterns, and family structures can influence demand for aged care services.
- Potential for negative publicity from incidents or perceived shortcomings in care quality, impacting trust and occupancy rates.

Source: Forsyth Barr analysis

Appendix 4: Geographic spread of assets

Figure 78. Geographic spread of assets



Source: Company, Forsyth Barr analysis

Appendix 5: Board profiles and remuneration

Figure 79. Board profiles

Board member	Position	Description
Brien Cree	Executive Chair	Brien Cree is a founding shareholder of Radius Care and was the CEO from the company's inception in 2003 and the Managing Director from 2010. Brien has built Radius Care's portfolio from nothing to its current 24 aged care facilities and four retirement villages. As Executive Chair, Brien is focused on the formulation and execution of Radius Care's strategic growth objectives. Brien has more than 30 years' experience in the aged care sector and is a longstanding Board member of the NZACA and past Board member of the Retirement Villages Association.
Duncan Cook	Executive Director	Duncan Cook has worked with Radius Care's founders to establish, structure and grow Radius Care's business. Duncan is a consultant at Sharp Tudhope Lawyers (Tauranga and Auckland) having been a partner in the firm for 31 years. His key areas of practice are mergers and acquisitions with a focus on consolidating primary and secondary health services. Duncan is a member of the New Zealand Law Society, Institute of Directors New Zealand (Inc), and Restructuring Insolvency & Turnaround Association New Zealand Incorporated. Duncan has governance experience across a range of industry sectors, including fishing, exports and housing construction. He has volunteered on the Boards of the Tauranga Chamber of Commerce and agencies associated with economic development in the Tauranga region.
Bret Jackson	Independent Director	Bret Jackson is an experienced business professional spanning all facets of business including entrepreneurship, leadership, private equity investment and governance (both private and public boards). Bret held corporate roles at Mobil Oil New Zealand, as a management consultant at Boston Consulting Group (Sydney and London) and has founded and successfully operated his own private businesses. He is also a past President of the Harvard Business School Alumni Association of New Zealand.
Mary Gardiner	Independent Director	Mary Gardiner is Chair of the Audit and Risk Committee of Southern Cross Pet Insurance, Director of Unity Credit Union, Chair of Netball Northern Zone, trustee of Mangere Mountain Education Trust (an Auckland Council-controlled organisation) and a Director of Women in Sport Aotearoa. Mary has previously been Chair of Auckland Netball Centre and Badminton NZ. Her commercial experience includes roles as Chief Financial Officer of Instant Finance and Radius Health Group, and Governance Risk Manager at Air New Zealand, following a career focused primarily in financial services with KPMG in New Zealand, Germany and Australia. Mary is a Chartered member of the Institute of Directors, Fellow of Governance New Zealand and is a New Zealand Fellow Chartered Accountant.
Hamish Stevens	Independent Director	Hamish Stevens is an Auckland-based Independent Director having held directorships in both the listed and private company sectors since 2010. He is also currently Chair of Embark Education Group, East Health Services, and Pharmaco, and a Director of Marsden Maritime Holdings, Northport and Counties Energy. Prior to his governance career, Hamish held senior finance positions with Heinz Wattie, Tip Top Ice Cream, and DB Breweries. Hamish is a qualified Chartered Accountant and a Chartered Fellow of the Institute of Directors.
Tom Wilson	Non-Executive Director	Tom Wilson was previously the chair of Barrett Homes Group, Regal Haulage Group, Hopkins Farming Group and Managing Director of Satara (NZX listed). Tom was involved in several leading management positions in the Aged Care sector during his career and was a partner at KPMG for 10 years.

Source: Company, Forsyth Barr analysis

Figure 80. Remuneration of board of directors

Name	Category	FY23 remuneration	Shares
Brien Cree	Executive Chair	$948,088	95,312,500
Duncan Cook	Executive Director	$102,000	571,153
Mary Gardner	Independent Director	$102,000	-
Bret Jackson	Independent Director	$102,000	4,617,783
Hamish Stevens	Independent Director	$102,000	76,292

Source: Company, Forsyth Barr analysis

Appendix 6: Management profiles and remuneration

Figure 81. Management profiles

Management member	Position	Description
Brien Cree	Executive Chair	See board profile.
Andrew Peskett	CEO	Andrew brings extensive experience in the retirement village and aged care industry, having previously been a senior executive at Metlifecare, a leading New Zealand retirement village operator with total assets in excess of $4 billion. After several years working in large London law firms, Andrew returned to New Zealand and joined Metlifecare in 2007, holding roles including Acting Chief Executive Officer, GM Corporate Services, Acting GM Operations and General Counsel & Company Secretary.
Jeremy Edmonds	CFO	Jeremy joins the Radius Care team with extensive experience across various industries. Most recently, as the interim CFO of My Food Bag.
Richard Callander	COO	Richard is passionate about customer experience in service environments and designing end-to-end processes to deliver service improvements. Richard enjoys helping teams to achieve business and personal goals. With experience in customer service and property management over multiple sectors, he has a proven track record of delivering sustainable growth for shareholders and positive outcomes for other key stakeholders.

Source: Company, Forsyth Barr analysis

Figure 82. Remuneration of CEO

Name	Position	FY23 total remuneration		
Andrew Peskett	CEO	$417,000		
Salary	**Benefits**	**STI**	**LTI**	**Total**
$400,000	$17,000	-	-	$417,000
96%	4%	0%	0%	100%

Source: Company, Forsyth Barr analysis

Appendix 7: Employee remuneration

Figure 83. FY23 employee remuneration

Remuneration	Number of employees
100,001-110,000	8
110,001-120,000	7
120,001-130,000	1
130,001-140,000	6
140,001-150,000	3
150,001-160,000	1
160,001-170,000	2
170,001-180,000	1
190,001-200,000	1
180,001-190,000	1
210,001-220,000	1
240,001-250,000	1
320,001-329,000	1
400,001-420,000	1
	35

Source: Company, Forsyth Barr analysis

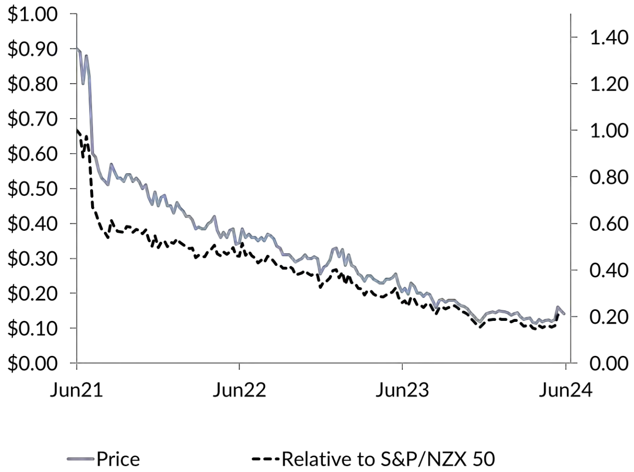
Appendix 8: Key terms and definitions

Figure 84. Key terms and definitions

Term	Definition
ACA	Aged Care Association
AFFO	Adjusted funds from operations
ARC	Aged Residential Care
Bolt-on acquisition	A type of acquisition where the acquirer purchases a smaller company in the same line of business
Brownfield development	Development of land with prior development history
CAGR	Compound annual growth rate
Capex	Capital expenditures
DCF	Discounted cash flow
DDM	Dividend discount model
DHB	District Health Board
DMF	Deferred management fee. A delayed fee payable by a resident when they leave a village which is designed to cover management and refurbishment
DPS	Dividends per share
Dual service care bed	A bed with multiple types of care services
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation and is pre-IFRS 16
EBITDA per care bed	EBITDA per occupied care bed, presented annually
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rent. Underlying EBITDAR is a non-GAAP (unaudited) financial measure.
EPS	Earnings per share
EV	Enteprise value
EV/EBIT	Financial ratio which describes how much it would cost to purchase a company's value in terms of its EBIT
Greenfield development	Development of land with no prior development history
Ha.	Hectare
HPI	House price index
ICU	Intensive care unit
IFRS	International Financial Reporting Standards. IFRS is the major accounting standard used in NZ
ILUs	Independent living units
Ke	Cost of equity
MOH	Ministry of Health
ND	Net debt
NPAT	Net profit after tax
NTA	Net tangible assets
OECD	Organisation for Economic Co-operation and Development
ORA	Occupational Rights Agreement
PACs	Premium Accomodation Charges
PV	Present value
Pyschogeriatric care	Care with the primary purpose of improving the quality of life for patients with psychiatric or behavioural disturbances
RAD	Radius Residential Care
RConnect	RAD's internal staffing bureau
REINZ	Real Estate Institute of New Zealand
Rfr	Risk free rate
RV	Retirement village
TAM	Total addressable market
TGR	Terminal growth rate
Underlying EBITDA	EBITDA adjusted for 'non-underlying' items outside the scope of normal business operations
WACC	Weighted average cost of capital
WALT	Weighted average lease term

Source: Forsyth Barr analysis

Figure 85. Price performance



Source: Forsyth Barr analysis

Figure 86. Substantial shareholders

Shareholder	Latest Holding
Wave Rider Holdings	33.5%
Windhaven Care Holdings	10.6%
Neil John Foster	5.5%
Main Family Trust No.2	5.4%

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

Figure 87. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect RAD's balance date - March)			(m)	2025E	2026E	2025E	2026E	2025E	2026E	2026E
Radius Care	**RAD NZ**	**NZ$0.14**	**NZ$40**	**6.3x**	**4.9x**	**8.1x**	**7.5x**	**12.5x**	**11.5x**	**12.0%**
Arvida Group Limited *	ARV NZ	NZ$0.92	NZ$673	8.3x	8.1x	12.7x	12.0x	13.9x	13.2x	2.2%
Oceania Healthcare *	OCA NZ	NZ$0.53	NZ$384	5.0x	4.2x	9.8x	8.2x	10.9x	9.0x	3.8%
Ryman Healthcare *	RYM NZ	NZ$3.76	NZ$2,586	10.2x	8.8x	13.7x	12.2x	15.8x	14.0x	0.0%
Summerset Group Limited *	SUM NZ	NZ$9.50	NZ$2,238	11.6x	11.1x	15.4x	14.5x	16.7x	15.8x	2.0%
			Compco Average:	**8.8x**	**8.1x**	**12.9x**	**11.7x**	**14.3x**	**13.0x**	**2.0%**
EV = Mkt cap+net debt+lease liabilities+min interests-investments			**RAD Relative:**	**-29%**	**-39%**	**-37%**	**-36%**	**-13%**	**-12%**	**501%**

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

Important information about this publication

Forsyth Barr Limited ("**Forsyth Barr**") holds a licence issued by the Financial Markets Authority to provide financial advice services. In making this publication available, Forsyth Barr (and not any named analyst personally) is giving any financial advice it may contain. Some information about us and our financial advice services is publicly available. You can find that on our website at www.forsythbarr.co.nz/choosing-a-financial-advice-service Please note the limitations in relation to distribution generally, and in relation to recipients in Australia in particular, as set out under those headings below.

This publication has been commissioned by Radius Residential Care ("**Researched Entity**") and prepared and issued by Forsyth Barr in consideration of a fee payable by the Researched Entity. Forsyth Barr follows a research process (including through the Analyst certification below) designed to ensure that the recommendations and opinions in our research publications are not influenced by this arrangement and the other interests of Forsyth Barr and related parties disclosed below. However, entities may not be willing to continue to pay for research coverage that includes unfavourable views.

Any recommendations or opinions in this publication do not take into account your personal financial situation or investment goals, and may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser.

Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer's securities or investments.

This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. If there are material inaccuracies or omissions in the information it is likely that our recommendations or opinions would be different. Any analyses or valuations will also typically be based on numerous assumptions (such as the key WACC assumptions); different assumptions may yield materially different results.

Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you.

In giving financial advice, Forsyth Barr is bound by duties under the Financial Markets Conduct Act 2013 ("**FMCA**") to:

- exercise care, diligence, and skill,
- give priority to the client's interests, and
- when dealing with retail clients, comply with the Code of Professional Conduct for Financial Advice Services, which includes standards relating to competence, knowledge, skill, ethical behaviour, conduct, and client care.

There are likely to be fees, expenses, or other amounts payable in relation to acting on any recommendations or opinions in this publication. If you are Forsyth Barr client we refer you to the Advice Information Statement for your account for more information.

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

Analyst holdings: The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A.For these purposes, a threshold interest is defined as being a holder of more than $50,000 in value or 1% of the financial products on issue, whichever is the lesser.

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

Corporate advisory engagements:: Other than confidential engagements, Forsyth Barr has not within the past 12 months been engaged to provide corporate advisory services to the Researched Entity.

Complaints: Information about Forsyth Barr's complaints process and our dispute resolution process is available on our website – www.forsythbarr.co.nz.

Disclaimer: Where the FMCA applies, liability for the FMCA duties referred to above cannot by law be excluded. However to the maximum extent permitted by law, Forsyth Barr otherwise excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. The information contained within this publication is published solely for information purposes and is not a solicitation or offer to buy or sell any financial instrument or participate in any trading or investment strategy.

Distribution: This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Recipients in Australia: This publication is only available to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("**wholesale clients**"). In no circumstances may this publication be made available to a "retail client" within the meaning of section 761G. Further, this publication is only available on a limited basis to authorised recipients in Australia. Forsyth Barr is a New Zealand company operating in New Zealand that is regulated by the Financial Markets Authority of New Zealand and NZX. This publication has been prepared in New Zealand in accordance with applicable New Zealand laws, which may differ from Australian laws. Forsyth Barr does not hold an Australian financial services licence. This publication may refer to a securities offer or proposed offer which is not available to investors in Australia, or is only available on a limited basis, such as to professional investors or others who do not require prospectus disclosure under Part 6D.2 of the Corporations Act 2001 (Cth) and are wholesale clients.