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Ryman Healthcare reports 1H25 results

Highlights

- Total revenue of $366.3 million, up 10% on 1H24.
- Reported net profit after tax (NPAT) of $94.4 million, down 50% from $187.1 million in 1H24.
- IFRS profit before tax and fair-value movements (PBTF)[1] of -$79.8 million (-11.6cps), down from -$17.8 million in 1H24 (-2.6cps).
- Cash flow from existing operations (CFEO)[1] of -$7.8 million, down $24.8 million on 1H24.
- Cash flow from development activity (CFDA)[1] of -$44.7 million, an improvement of $132.6 million on 1H24.
- Sales of occupation right agreements (ORAs)[1] of 827, up 5% on 1H24, with resales up 9% to 603 and new sales down 5% to 224. Gross receipts of $651.4m, up 5%.
- Occupancy on mature aged care centres steady at 96.4% (96.2% in 1H24).
- 667 new retirement village units and aged care beds delivered.
- Completed one village (Miriam Corban), opened one village (Hubert Opperman) and opened three main buildings (Miriam Corban, Keith Park, and James Wattie).

Ryman Healthcare Limited (Ryman) has reported a 10% increase in revenue to $366.3 million for the six months ended 30 September 2024, driven by increases in care and village fees following the opening of one village and three main buildings, and growth across the existing portfolio.

Executive Chair Dean Hamilton said: "We were pleased with the operating performance of our villages in the first half relative to the prior year as we remained firmly focused on providing great care and experience for our residents.

"Whilst occupancy remained high for our mature villages, we know there is a cost to opening three main buildings in the period as we progressively fill care beds and sell down serviced apartments. Resident sentiment remains positive – with NPS stable across care and independent living residents. Excluding one-offs, our non-village operating costs were relatively static year on year. However, with lower development activity, we are capitalising less of these costs, impacting reported earnings."

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[1] This is a non-GAAP measure which does not have a standardised meaning prescribed by GAAP (Generally Accepted Accounting Practice). This non-GAAP measure has been presented to assist investors in understanding Ryman's performance. It may not be comparable to similar financial information presented by other entities.

Sales of ORAs were up 5% to 827 in 1H25, the strongest six-month period in the last three financial years, demonstrating that demand for Ryman's product remains strong. Whilst we maintained pricing in a challenging market, this has translated to a compression in resale margins per unit, which are dependent on unit price inflation.

The decline in PBTF from -$17.8 million in 1H24 to -$79.8 million in 1H25 reflected higher growth in reported operating expenses and finance costs – both largely due to lower cost capitalisation.

CFEO declined from $17.1 million in 1H24 to -$7.8 million in 1H25, with solid growth in village cash flows offset by higher non-village and interest costs – both also due to lower cost capitalisation. CFDA has seen a material improvement from -$177.3 million in 1H24 to -$44.7 million in 1H25, driven by steady cash inflows from resident funding and significant reductions in capex on direct construction spend and reduced investment in new land.

Sales and stock of occupation rights

As previously announced, from 1H25 Ryman now recognises ORA sales at the time of occupation. This better aligns with both reporting in the wider sector and with cash flow metrics as the majority of sales are settled when a resident moves in.

Ryman has booked 827 sales of ORAs in 1H25, generating $651.4 million of gross proceeds, both up 5% on 1H24. This was driven primarily by a robust period of resales, up 9% on the back of strong move-ins for serviced apartments, and a steady period for independent units.

Ryman has delivered 387 new retirement units in the period.

Unoccupied retirement unit stock is up 182 units from 974 at March 2024 (10.6% of total stock) to 1,156 at September 2024 (12.1%), predominantly reflecting serviced apartments delivered in three main buildings which opened during the period. Stock at September 2024 includes 522 units under contract.

Governance and leadership update

Newly-appointed CEO Naomi James joined on 4 November and Dean Hamilton will step down as Executive Chair, returning to the role of Board Chair on 29 November, following a period of handover.

Mr Hamilton said: "Naomi's experience leading people through transformation within capital intensive, regulated industries in New Zealand and Australia will make a significant contribution to Ryman. I am really confident in handing over the reins and look forward to supporting Naomi as we all work towards delivering more sustainable value for our Ryman residents, team members and shareholders."

As announced on 22 October, Scott Pritchard has been appointed as an independent director from 1 November 2024. As announced at the 2023 annual shareholder meeting, Claire Higgins will step down on 31 December 2024.

"I'd like to thank Claire for her 10 years' contribution to Ryman and in particular stepping into the role of Interim Chair ahead of the capital raise and Board renewal process," Mr Hamilton said.

"With Scott's appointment, that now completes the Board renewal process, with five new directors joining the Board since June 2023."

Business improvement

Ryman has continued to make progress on its business improvement programme through implementing changes announced in September, including a new pricing model, driving greater efficiencies in its services and support structure, and introducing a new approach to development.

Mr Hamilton said: "Our new pricing model recognises that our residents are staying longer and our need to cover village operating costs, which have increased significantly in recent years (rates, insurance and electricity in particular). The financial benefit of these changes will flow as new ORA contracts are entered, most of which will be realised over a 15-year timeframe."

The implementation of Ryman's new services and support structure has progressed, with a number of changes now confirmed following a period of consultation.

Mr Hamilton said: "Our leaner structure, starting with a reduced executive team, has seen the removal of duplicated functions across New Zealand and Australia, the flattening of reporting lines, and a reduction in our inhouse development function as existing projects complete and we move towards more outsourcing of our design and construction.

"This has been a challenging period for all of team members at Ryman, and I want to thank them for leaning in and supporting the change process.

"The business improvement changes we've implemented will lower costs now and improve revenue materially over time. We have achieved $18 million of annualised savings to date in gross non-village operating expenses. We are targeting a similar level of savings across the Group by the end of FY26," Mr Hamilton said.

One-off costs associated with the business improvement programme to date are approximately $10 million, with $6.5 million recognised in 1H25.

Development update

Several development milestones were achieved during 1H25:

- Three main buildings were completed, and the first care residents were welcomed at Miriam Corban, Keith Park and James Wattie;
- Hubert Opperman (Mulgrave) was opened in August; and
- Miriam Corban was completed.

Ryman now has 49 operational villages – 9 in Victoria and 40 in New Zealand. Ryman has nine sites under active construction (all of which are open). Before financial year-end, it is anticipated that both Bert Newton and James Wattie will be completed, which will reduce sites under active construction to seven.

The 1H25 build rate (on a completed basis) totalled 667 units and beds, including 142 independent units, 245 serviced apartments and 280 aged care beds. We expect to deliver at the top end of our 850-950 build target for FY25.

“We do not intend to commence construction on a new development outside of the nine inflight before March 2026.

“This allows time for our overheads to reduce and for us to work through current stock on hand, while building the internal capability and external relationships to successfully transition to a developer rather than constructor model,” Mr Hamilton said.

Capital management

At September 2024, net interest-bearing debt was $2.56 billion, up $0.05 billion from March 2024. Total funding headroom at September 2024 was $455 million (undrawn facilities and cash).

In September, Ryman agreed amendments to its interest coverage ratio (ICR) covenant levels for testing periods through to March 2026. Ryman remains compliant with all lending covenants and obligations at September 2024.

Dividends remain suspended. Ryman intends to undertake a further review of the dividend policy at FY26. Any future dividend policy is expected to be based on cash flow.

“The financial focus of the Board remains on strengthening cash flow outcomes and reducing our debt position over time,” Mr Hamilton said.

Significant progress made in financial reporting

Ryman continues to undertake an extensive review of its financial reporting with the goal of enhancing the transparency of its financial results and ensuring greater comparability with others in the sector.

Several changes have been implemented in the period, many of which were signalled at the FY24 results on 27 May 2024 and business improvement update on 2 September 2024.

These changes have impacted 1H25 accounts and resulted in restatements of prior period financials. Key accounting changes include:

- Changing the recognition point for occupancy advances to when a resident takes possession of a unit (previously on signing an application form).
- Increasing the expected periods of tenure used to recognise DMF revenue to nine years for independent units and four and half years for serviced apartments (previously seven years and three years respectively).

- Reclassifying development land as investment property which is held at fair value (previously classified as property, plant and equipment held at cost).
- Adjusting the treatment of occupation advances within the investment property valuation (which previously included a discount to the DMF component).

Outlook

"Current economic conditions remain challenging in both New Zealand and Victoria," Mr Hamilton said. "Residential housing volumes and pricing continue to be subdued, impacting the ability of prospective residents to settle on ORAs. We expect these conditions to continue through the second half.

"Previous cash flow guidance assumed higher 2H25 settlements of new ORAs, which are now expected to be deferred to FY26. We are delivering our programme of main buildings – acknowledging that the capital release from these takes time. We have moderated the pace of development at some of our existing inflight projects, reflecting current stock levels and market conditions."

FY25 guidance:

- **Cash flow**: We expect to have negative free cash flow between $50-100 million as settlements are deferred into FY26 (previous guidance: targeting positive free cash flow).
- **Capex**: We expect to spend $625-675 million on total capex, as a result of the slow-down of some inflight projects, and lower investment in land bank sites. This includes $540–580 million on development activity and $85-95 million on existing operations (previous guidance: $700-820 million total, $600-700 million on development activity, and $100-120 million on existing operations).
- **Build rate**: We expect to deliver at the top end of the previously indicated 850-950 retirement village units and aged care beds.

Ryman's outlook for FY25 is based on current market conditions and its assessment of the future.

"We are well positioned to benefit when residential property markets recover," Mr Hamilton said.

"I am confident that Ryman's history of industry-leading innovation and clear focus on what is good enough for mum or dad, provides us with the foundation to deliver a stronger future and one that balances great care with great financial performance. Our residents will continue to remain at the centre of everything we do," said Mr. Hamilton.

ENDS

About Ryman:

Ryman Healthcare was founded in Christchurch in 1984 and owns and operates 49 retirement villages in New Zealand and Australia. Ryman villages are home to 15,100 residents, and the company employs 7,700 staff.

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