Responses to additional Q&A at the Annual Meeting of Shareholders of Oceania Healthcare Limited
Held at Eden Park, Auckland and online on Thursday 23 June 2022 at 2.00pm

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Question 1: Fixed priced contracts can be a millstone for the contractor. I would think, in these uncertain times you would be paying a hefty premium. Can you elaborate?

Fixed price contracts can in many instances be burdensome for contractors where they don’t match that fixed pricing with that of subcontractors – they need to have strong relationships with their preferred subcontractors. Our approach is to fix what is fair and reasonable and, in some instances, this does require paying a bit more but that premium only reflects the estimated cost escalation on that portion of the contract. Often contractors will offer a hefty premium to take all fixed price risk however we are no longer favouring that approach in this highly inflationary market. We generally contract with a small group of contractors with whom we have had long relationships, preferring those that self-perform key trades such as carpentry which can therefore be fixed with greater certainty due to control. Our most recent fixed price contract was initially negotiated at 50% fixed and then a further 23% was fixed after careful assessment of the potential future escalation on this component of trades. The balance 27% is carried at our risk with an appropriate specific contingency allowance to cover potential escalation which is determined jointly by the contractor, their subcontractors and our independent Quantity Surveyor. Importantly, the key is having a strong and open / honest relationship with the contractor. Regular communication and assessment of the financial position of the contract is vital. We employ in-house Project Managers who are highly experienced in managing and administrating these fixed price contracts. Our approach is that the builder needs to make money as do we for shareholders, the key is in finding that happy medium.