

AVJennings Limited

Investor Briefing Presentation Speaker Notes

(to be read in conjunction with the FY21 Half Year Results Presentation released to the market on Thursday, 25 February 2021)

Presented by: Peter Summers, CEO & MD and Larry Mahaffy, CFO

Welcome all to today's briefing on AVJennings' results for the 6 months to 31 December 2020.

As you know, part of the process for presenting results comprises comparisons to the corresponding prior period. It might only be 12 months ago but it seems so much longer and so much has changed. At the corresponding presentation last year, we were talking about bushfires and floods and the first signs of the market recovery, particularly in Melbourne and Sydney. How things changed only a few weeks later!

Yet whilst there have been so many challenges to businesses and individuals, there are some fundamentals that haven't changed. This presentation will touch on not only the results but also how some aspects remain unchanged.

The best opening comment I can make on this is we had to find many different ways to get things done. But our model, our goals and aspirations have remained steadfast.

I will start the more formal part of the presentation with such an example, being our strategic model. In previous years we have highlighted a number of features of our strategy all of which are not only relevant long-term but have been critical to meeting the challenges of 2020.

What We Do

As set out on the slide on the screen, which is slide 3 of the Investor Briefing document released to the ASX a few hours ago, one of those strategic aspects is what we do and what we don't do. Property is a wide-ranging industry and even within residential there are many individual areas.

AVJennings operates entirely within the residential segment of the property market. It can best be summed up as a focus on traditional land for housing subdivision. And whilst we do build on our own land, we don't do contract building.

On the back of HomeBuilder, which I will discuss more widely later, the market for contract builders has been strong. This also translates into a strong land market for AVJennings. The market has also been strong for our housing product. One advantage we have is that our pricing is usually set further down the production chain than contract building. This eliminates a lot of the risk around contracts which have a fixed sales price but are delivered at later times and are exposed to rising costs.

I am a big supporter of HomeBuilder and congratulate the Federal Government on its initiative. However, one downside to HomeBuilder has been the condensed timeframe it has

created. This places pressure on limited resources. Our model allows us to blend a mix of construction of pre-sales as well as pre-planned housing, allowing for a smoother construction profile.

We also do not do high rise, CBD developments. It has been a long-held view that this segment is too volatile. Most market commentators have expressed concerns for at least the short-term future of this segment.

We are confident we have the right type of product profile for the current and future needs of our customers.

Production Levels, Customers and Geographic Diversity

Our industry has cycles as a recurring feature. Being able to manage them is an inherent challenge. Our focus on traditional land development, which sees development progress horizontally rather than vertically as occurs in the apartment space, allows us to moderate production levels quickly.

Larry will talk more to this later, but you can see from slide 4, we were able to quickly reduce our exposure when the pandemic first hit. The activity level had started to rise by 31 December although our focus in the second half of the 2020 calendar year was more on restarting and completing existing work in progress and selling and settling our existing completed inventory. The early months of calendar year 2021 has seen a renewed focus on starting new inventory production. In part this was also driven by project timing. We have previously highlighted our bias to the second half for FY21.

Understanding our customers has always been one of the key drivers of our strategy. This has never been more important than in the past 12 months. Understanding why customers were keen to complete settlements for contracts that existed at the time the pandemic hit was important. It meant we had to find ways to help them as their worlds were impacted by the pandemic.

It also meant we understood those buyers who were still likely to be active throughout the pandemic crisis. Those in secure employment, first home buyers responding to opportunity, B2B customers with an eye to the future and so on.

In the main, our customers, and their need for housing, didn't go away. They may have needed a bit of time and support but their needs remained, and remain, the same. Some have had to defer their decision which is understandable and they will start to re-enter the market as things improve.

Being geographically diversified has always been an element of our strategy. The main reason has been an understanding that very seldom do various markets move in the same direction at the same time. Being diversified has enabled the Company to provide an opportunity for investors to take a position in the broader multi city major Australian and New Zealand traditional residential markets. This year, that diversity had another angle as we were able to navigate the impact of various lockdown variations across our markets.

I will now hand over to our CFO, Larry Mahaffy, to take us through the results for the six months.

Thank you, Peter.

Review of 1H FY21

Slide 8 summarises performance in the half under review and shows, compared with the prior corresponding period, revenue of \$114.6M was down 33.2%, profit before tax of \$9.5M was down 24.9% and profit after tax of \$5.5M was down 37.7%. Earnings per share followed suit, declining 37.9% to 1.4 cents per share, while Net Tangible Assets and Net Tangible Assets per share were stable. Average Gross Margins increased by 2 percentage points to 24.3%.

Slide 9 depicts revenue falling in line with settlements, which at 395 lots was down 30% on the prior corresponding period. Slide 10 Contract signings, a key indicator of future performance, were well up at 415 lots, compared with 280 lots in the first half of 2020.

Slide 11 indicates that the fall in revenue in the first half of fiscal 2021 was driven by steep declines in New Zealand and New South Wales that primarily reflect interrupted production and the timing of revenue recognition. The contribution from each of these jurisdictions is expected to be significantly stronger in the second half of fiscal 2021.

Slide 12 illustrates that while both housing and land contributed to the revenue decline, land revenues fell more significantly as land production was disproportionately affected by production delays. These delays reflected a combination of intentional restraint, especially in the earliest phase of the pandemic when uncertainty was at a peak and the Company focused on conserving cash by reducing production commitments and clearing completed unsold stock, and involuntary interruptions occasioned by government-mandated constraints upon commercial activity in some jurisdictions. Slide 16 shows the effect of this upon WIP levels in the second half of fiscal 2020, which rose moderately in the half under review. It also shows that completed unsettled sold stock reduced from 378 lots in June 2020 (of which 156 were unsold) to 191 lots at first half balance date (of which only 65 were unsold), clearing the way for further commencements in the second half.

Expenditure on overheads reduced by nearly \$4.4M, before accounting for \$2.7M worth of 'JobKeeper' receipts.

Slide 18 shows Directors declared a dividend of around \$3.0M or 0.7 cents per share.

Slide 13 summarises the balance sheet, which remains strong, with Slide 15 showing gearing to be in line with prior periods and, at just under 25% of net debt to total assets, well within the Company's target range of 15-35%. \$250M of the \$300M core debt facility maturity is approved for extension to September 2023, while the Company has decided to terminate the remainder prior to its due date in September 2021. The Company has adequate undrawn

banking facilities to fund its objectives and is compliant with all lending covenants.

Slide 14 summarises the cash flow statement with positive net cash from operations and reductions in net debt in two consecutive accounting periods directly attributable to the reduced production noted earlier.

Slide 17 shows that land under control at balance date rose to 12,669 lot equivalents following the acquisition of a site at Calderwood near Shell Harbour in New South Wales that is expected to yield around 390 lots, together with progress made in relation to land under a Project Development Agreement in the Ripley Valley Queensland that will yield approximately 449 lot equivalents and effectively extend the Company's existing 'Cadence' project.

I'll now hand back to Peter.

Thanks Larry.

Market Outlook

As we have navigated the various challenges, I have always kept strongly in mind where we were when the pandemic started to really hit. As stated earlier, we were in the initial stages of a recovery. Most likely a very strong recovery.

Most housing needs in our segment are just that – needs. Even for our investor buyers they are supplying a fundamental housing need from every day Australians and New Zealanders for rental property.

But the impacts of Covid were significant. Underlying unemployment escalated in rapid time, social distancing measures impacted on our freedoms in ways we never imagined. Whilst those who had made the decision to transact already, continued to find ways, it is understandable many others would, wherever possible, take time to assess these unusual times.

Without some trigger, the 6 months to 31 December 2020 looked very challenging. But the trigger arrived, in the form of HomeBuilder, supported by other government measures, both Federally and State. It has been successful in achieving its aims.

We have certainly seen activity levels rise to levels well above what we all expected and feared going into that period. But it has still not, in our opinion, led to an overall situation where volumes are at levels that would have existed had the pandemic not occurred. Sometimes statistics need a second look and it is worth remembering that reported numbers are being compared to a market which was coming off a very low level a little over 12 months ago.

It has been particularly pleasing to see the increase in first home buyer levels as various schemes have incentivised their entry into the property market. As our statement goes, Community Matters, Housing Matters, and that is especially relevant to those buying their first home and looking to create their futures.

So what happens when HomeBuilder ends? Well, in part it has partially ended in that the grant reduced in January 2021 from \$25,000 to \$15,000. We have also seen some builders close their books as they focus on meeting their obligations for contracts on hand.

Yet enquiry levels and sales have escalated in recent months.

As mentioned earlier, we believe a significant portion of the underlying demand remains unfulfilled. This has also been impacted by relatively low levels of supply in recent years in some areas, particularly in traditional housing.

Moving forward, activity will increasingly be based on buyers growing confidence.

Economic forecasts of gloom and doom that dominated media commentary during much of 2020 are being replaced with brighter forecasts. No doubt, much of this growth will continue to require government support. Apart from providing economic support, hopefully this will also see Australia and New Zealand build better infrastructure and focus on much needed social reform especially around housing needs.

Our customers will also take increasing confidence from positive sentiment that will come from a rise in employment and job security, the likely long term continuation of low interest rates and increased confidence we are getting on top of the health and social risks through the rollout of the vaccine.

Sales Volumes in the Last 6 months

There is nothing like backing up words with some numbers. This chart clearly summarises the various market phases I have referred to earlier.

AVJennings Outlook

And this trend has strengthened in recent months with 118 contracts signed to 23 February. When added to the level of pre-sales that existed at 31 December 2020 we are taking into future periods, this gives us strong confidence for the full 2021 financial year.

And it needs to also be remembered we have always expected a second half bias to our numbers.

Looking a little further, it is pleasing to be on the verge of starting 3 new exciting projects in coming months. These are:

- Prosper, a low-rise apartment project at Kogarah in Sydney;
- Rosella Rise, a land development project at Warnervale on the NSW Central Coast; and
- Aspect, also a land development project at Mernda in Melbourne's strong northern growth corridor.

Both Rosella Rise and Aspect will also see significant pre-planned building activity undertaken by AVJennings.

One remaining unknown for most of us is the impact of immigration. In the short term, closed borders may impact on the creation of new demand. Even if borders open how quickly will that translate into new demand?

Longer term, however, it is our view that both Australia and New Zealand will be attractive options. Not only to new migrants, but to expats keen to return home.

Overall, we are cautiously optimistic about the future. Fundamentally we are quite optimistic about the short term based on our level of pre-sales and market conditions. However, we also need to remain a little cautious because we know things have changed so quickly and may yet again.

Community and Trust

As custodians of a Company that has played such an important role in people's lives, particularly in Australia, since 1932, we are a Company that wants to be respected and trusted. It is always pleasing when we get positive recognition, whether that be in the form of customer testimonials, or in the more formal recognition from things such as the Readers Digest Brand Award.

We want to make a difference to the communities in which we operate. Many of our initiatives see our people give their time and money and support to community organisations.

It all starts with having great people. 2020 challenged us all. To be able to witness the genuine care for our customers, our suppliers, our communities and each other from our staff, supported by the Board, was heartwarming.

In the interest of time I won't talk to the remaining slides but I am happy to take any questions, or any other questions you may have. To facilitate this I will now hand back to Andrew.

ENDS.