16 August 2017

Villa World Reports Results for Full Year Ended 30 June 2017

Residential house and land developer Villa World has continued to deliver against its strategy, posting its fourth consecutive full-year profit growth and maintaining strong earnings for shareholders. The Board declared total full year dividends of 18.5 cents per share fully franked, representing a yield of 8.1%[1].

- Statutory profit after tax of $37.8 million (FY16: $33.7 million) up 12%
- EPS: 32.5 cps (FY16: 30.6 cps) up 6%
- FY18 guidance of profit after tax of $41.6 million, representing growth of 10% over FY17. EPS guidance of 32.8cps
- 10.5 cps fully franked final dividend declared post balance date; full years' dividend of 18.5 cps (FY16: 18.0 cps)
- 526 sale contracts carried forward with a gross value of $175.7 million[2] (FY16: 464 contracts worth $165.6 million)
- Strong year of restocking to deliver forward cumulative EPS growth of at least 10%[3] – 3,454 lots acquired.

Financial Result

Villa World Limited (ASX: VLW) ended the 2017 financial year with a strong full year result, reporting statutory net profit after tax of $37.8 million (32.5 cps), up 12% on the prior period's result of $33.7 million (30.6 cps). This is ahead of the guidance of $37.5 million.

Operational Performance

Continued sales momentum combined with an outstanding delivery of land and housing resulted in 1,116[4] accounting settlements of wholly owned lots in FY17 (FY16: 1,073), generating revenue of $386.8 million (FY16: $387.0 million).

The reported gross margin was $106.3 million or 27.5% (FY16: $100.6 million or 26.0%). All aspects of the Silverstone proceedings were concluded in 1H17, with $0.6 million released back into reported gross profit.[5] The underlying gross margin was $105.7m or 27.3%, exceeding the targeted range of 24%-26%, due to sales price increases and cost savings.

During FY17 the Company continued to progress its strategy to grow development and project management income streams by deploying development management skills into joint venture arrangements. These ventures delivered $5.4 million in fee income and share of profit (FY16: $4.6 million), above guidance of $3.4 million due to strong sales and settlements at the Rochedale joint venture project.

The Company anticipates development and project management fees, and share of profit from equity accounted investments will provide an ongoing revenue stream for the business.

Sales Performance

Projects at various points in the lifecycle contributed to 1,207 sales during FY17 (FY16: 1,185). The Company largely sold out of 18 projects mid-year, including strong performing projects in Bayside Brisbane and

[1] At closing price of $2.27 on 11 August 2017

[2] Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST. $127.6m (392) lots to settle in 1H18. $38.6m (96 lots) to settle in 2H18. Balance of $9.5m (38 lots) to settle in FY19.

[3] FY18 eps of 32.8 cps. FY19 eps to increase by 20% over FY18, to result in cumulative eps growth of great than 10%pa. over FY17-19.

[4]Total lots settled in FY17 was 1154; 1116 settlements of Company owned lots (FY16: 1,073), and 38 lots (50% share) relating to joint ventures (FY16: nil), which are reflected in Share of Joint Venture Profits.

[5] Refer note B5(d) Financial Statements

Melbourne[6]. The Company successfully released eight new projects for sale predominantly in 2H17, including flagship projects in the Logan, Gold Coast, Bayside Brisbane and Melbourne growth corridors[7]. These projects will make a full year contribution to sales in FY18.

A further nine projects will commence selling in mid FY18 across key growth corridors of northern Brisbane, Logan, north and north-east Melbourne and south-east Melbourne, including flagship projects *The Meadows* (Strathpine), *Chambers Ridge* (Park Ridge), *Covella* (Greenbank), Wollert and Clyde.

CEO and Managing Director Mr. Craig Treasure said, "Our strategy of maintaining a pipeline of projects, while also diversifying both geographically and in our product mix within the residential house and land market, has translated into consistent cash flow and growth for Villa World."

Queensland has continued to perform very well, contributing 71% of sales (FY16: 74%). Pleasingly the Company has experienced continued strength in its Victorian projects, contributing 21% of sales (FY16: 26%), with New South Wales making up the remaining 8% of sales (FY16: nil). The Company's strategy of targeting growth corridors continues to reap excellent results in Queensland, with strong sales in all south east Queensland corridors and in Hervey Bay. Land and turnkey housing product continued to sell very strongly in Melbourne. The Company's land only estate south of Sydney sold out during the year, and the recently released housing product in the south-west growth corridor has been well received by the market.

The Company maintains a solid position in all customer segments – the core being the retail market (comprising owner occupier including first home buyers), as well as builders and predominantly local investors[8].

The Company will carry forward 526 sales contracts worth $175.7 million[9] into FY18. 75% of contracts (392 lots valued at $127.6 million) are anticipated to settle in 1H18, 18% of contracts (96 lots valued at $38.6 million) in 2H18, with the balance (38 lots valued at $9.5 million) settling in FY19. The strong carried forward sales, when combined with the Company's continued sales focus, place the Company in a very strong position for FY18.

Cash Flow Perfomance

Strong operating cash flows of $190.2 million enabled the Company to expend $123.3 million on the acquisition of new land, whilst ending the year in a strong cash and debt position. The land acquisition payable at 30 June 2017 is $139.3 million in total. Since year end, $30.6 million has been paid, and the balance will be settled from operating cash flows, existing debt facilities and settlement proceeds from third party settlements.

Balance Sheet

Net tangible assets at year-end were $287.7 million (FY16: $236.9 million), representing $2.27 per share (FY16: $2.15) before the declaration of the final 10.5 cps dividend. While gearing at 30 June 2017 was 12.9% (25.6% as at 30 June 2016), due to the timing of land acquisition payments and operating cash flows, the Company continues to maintain a prudent gearing target of 15-30%. Net debt as at 30 June 2017 was $73.8 million (FY16: $120.2 million).

Portfolio

Following the capital raising transactions in March 2017, the Company executed its acquisition strategy to replenish land stock through strategic purchases in proven growth corridors, and to take advantage of opportunities to diversify its geographic footprint along the east coast.

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[6] 723 lots in 18 largely sold out projects, including Era, Ellabay, Affinity and Waterline in Bayside Brisbane, as well as Sienna, Lavinia and Cardinia Views in Melbourne.

[7] Killara, Arundel Springs, Seascape and Sienna Rise respectively.

[8] Less than 5% of FY17 sales were to international investors (FY16: less than 5%).

[9] Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST. (FY16: 464 sales contracts worth $165.6 million).

In FY17, the Company acquired 3,454 lots, including significant land parcels in growth corridors in northern Brisbane, Logan, north-west and south-east Melbourne, which will provide product continuity for several years into these strong markets.

As at 30 June 2017 the Company had a portfolio of 7,832 lots (FY16: 5,937 lots), representing approximately 6.5 years of sales[10].

FY17 Dividend

The Board is pleased to have declared a total of 18.5 cents per share fully franked dividends in relation to the financial year ended 30 June 2017 - an interim dividend of 8.0 cents per share and a final dividend of 10.5 cents per share declared post balance date.

The ex-dividend date for the final dividend is 4 September 2017, the record date is 5 September 2017, and payment will be made on 29 September 2017.

Outlook

In FY18 the Company's focus will remain on delivering and settling carried forward sales and releasing flagship projects The Meadows (Strathpine), Chambers Ridge (Park Ridge), Covella (Greenbank), Wollert and Clyde. With in excess of 15 substantial projects selling during FY18, the Company expects to achieve at least 1400 sales.

The Company continues to progress its strategy of growing joint venture arrangements. In FY18, these arrangements are expected to contribute approximately $7.0 million to profit comprising development and project management fees, and share of profit, primarily from the Rochedale and Greenbank joint venture projects, with the Donnybrook joint venture project to follow from FY19.

The Company anticipates that development and project management fees will provide an ongoing and growing revenue stream, as the Company continues to pursue opportunities to grow the business in a capital efficient way, with a strong focus on return on assets.

The FY18 gross margin is expected to be within the range of 24% to 26%, with an increased proportion of capital lite projects contributing to profit. While such projects deliver a lower gross margin, they provide a strong return on investment.

Following the deployment of capital to acquisitions in FY17, the Company has significantly progressed the expansion of its project footprint, and is closer to cementing its longer-term position as a leading east coast residential developer. The Company will be selective in acquiring projects to build the pipeline beyond FY19. Acquisitions will predominantly be on deferred terms and/or through joint ventures and partnering arrangements. The Company expects cash outflow for acquisitions of $110 million to $130 million in FY18 funded from existing debt facilities and working capital and $45 million in capital lite transactions.

FY18 Guidance

Assuming general consumer confidence is maintained, interest rates remain low and first home buyer grants remain in place, the Company is targeting a 10% growth in statutory profit after tax to $41.6 million in FY18, (FY17: $37.8 million). This represents EPS of 32.8 cps (FY17: 32.5 cps). Earnings will be significantly weighted to 2H18 due to the timing of delivery. 1H18 NPAT is expected to be $10-12 million.

This guidance is underpinned by strong carried forward sales, continued sales momentum across the Company's markets, full year contribution from flagship projects released in FY17 and nine new project releases throughout FY18 across key (and historically strong) growth corridors, including an increased presence in the Victorian and New South Wales markets, and an increased delivery capability.

Mr. Treasure said, "The Company's deployment of capital, and land acquisitions in strong growth corridors provide the opportunity to deliver the next step-up in growth over the next few years."

[10] *At the FY17 sales rate of 1207.*

FY18 Dividend Guidance

It is the intention of the Board to continue the payment of strong dividends, in accordance with the stated payout policy of 50% to 75% of annual NPAT, paid semi-annually. The Board anticipates paying total dividends of at least 18.5 cents per share fully franked in FY18. 1H18 dividend is expected to be 8 cps.

FY17 Financial Results live audio stream

The Company's FY17 results presentation will be webcast on Wednesday 16 August 2017 at 2pm AEST at the following link http://webcast.openbriefing.com/3793/

Subsequently, the webcast will be archived on the Company's website http://www.villaworld.com.au/investor-centre/media-release/brief-video and at http://www.openbriefing.com/OB/2553.aspx

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