9 August 2018

MIRVAC GROUP FULL YEAR RESULTS – 30 JUNE 2018

Mirvac Group (Mirvac) [ASX: MGR] today announced its full-year results for the financial year ended 30 June 2018 (FY18), with the Group delivering at the top end of guidance, delivering EPS of 15.6 cents per stapled security (cpss), up 8 per cent on FY17, and DPS of 11 cpss, up 6 per cent on FY17.

Mirvac's CEO & Managing Director, Susan Lloyd-Hurwitz, commented, "Our purpose to reimagine urban life and our urban asset creation strategy underpinned another excellent year in FY18, delivering strong earnings growth for our securityholders and ensuring we have a resilient and sustainable business that is well-placed for the future. This is reflected by a robust capital position with good visibility of future earnings and each business unit performing at the top of its class."

Key highlights across the Group:

- operating profit increased by 9 per cent to $580 million (FY17: $534 million)[1], representing 15.6 cpss which was at the top end of guidance provided, and driven by a strong performance in the Group's Office & Industrial business;
- full-year distributions increased 6 per cent to $408 million, representing 11.0 cpss and also at the top end of guidance provided;
- statutory profit after tax of $1.1 billion, marking the third consecutive year Mirvac has achieved a statutory profit of more than $1 billion;
- completed over 193,700 square metres[2] of leasing across the investment portfolio, with high occupancy maintained at 98.7 per cent[3] and a WALE of 5.6 years[4];
- strong net property revaluation uplifts across the Investment portfolio of $490 million[5] (or 5.3 per cent), supported by an overweight to prime assets in Sydney and Melbourne;
- settled a record 3,400 residential lots, with $2.2 billion[6] in residential pre-sales secured;
- achieved a Residential Return on Invested Capital (ROIC) of 18.1 per cent;
- continued to attract high-quality capital partners, including ISPT Pty Ltd at Kawana Shoppingworld, Buddina QLD and M&G Real Estate at 80 Ann Street in Brisbane, QLD[7];
- achieved an employee engagement score of 90 per cent, up 2 per cent on last year and 3 per cent above the Global High Performing Norm[8];
- launched the Australian Build-To-Rent Club, with Indigo at Pavilions, Sydney Olympic Park NSW as the first purpose-built build-to-rent asset[7];
- launched the second phase of the Group's sustainability strategy, *This Changes Everything*, with the Group committing to investing $100 million in the social sector by 2030; and
- launched four Australia-first innovation initiatives through the Group's innovation program, Hatch.

1. Excludes specific non-cash items, significant items and related taxation.
2. Excludes leasing of assets under development.
3. By area, including investments in joint ventures and excluding assets held for development.
4. By income, including investments in joint ventures and excluding assets held for development.
5. Includes Mirvac's share of the joint venture's net property revaluation.
6. Adjusted for Mirvac's share of joint ventures and Mirvac managed funds.
7. In July 2018.
8. As defined by the Group's survey provider, Willis Tower Watson.

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Ms Lloyd Hurwitz said, "We achieved a significant amount in FY18, which has been made possible because of our people. Our people underpin our strong results and are passionate about safety, innovation and our well-recognised approach to sustainability.

"We have recorded our lowest lost time injury frequency rate on record; our innovation programme, Hatch, has continued to go from strength to strength; and with the launch of the second phase of *This Changes Everything*, we have refined our target focus areas to six under three clusters: climate, communities and governance."

Financial and capital management highlights:

- net tangible assets (NTA)[1] per stapled security increased to $2.31 (30 June 2017: $2.13);
- weighted average debt maturity increased to 6.8 years from 6.2 years (30 June 2017), following the issuance of US$400 million of Reg S European Medium Term Notes and HK$300 European Medium Term Notes, maturing in 2027 and 2028 respectively;
- maintained substantial available liquidity, with $906 million of cash and committed undrawn bank facilities held;
- Moody's Investor Services credit rating upgraded from Baa1 to A3;
- Standard & Poor's credit rating outlook revised from stable to positive, with the Group's BBB+ credit rating maintained; and
- gearing remained within the Group's target range of 20.0 to 30.0 per cent at 21.3 per cent[2].

Office portfolio highlights:

- maintained solid occupancy of 97.5 per cent[3] with a WALE of 6.6 years[4];
- completed 73 deals over approximately 74,850 square metres[5], with positive leasing spreads of 8.6 per cent;
- total office asset revaluations provided an uplift of $381 million[6] (or 7.1 per cent) over the previous book value, supported by an overweight to prime assets in Sydney and Melbourne;
- secured Suncorp at 80 Ann Street, Brisbane in July 2018, with Suncorp committing to over 39,600 square metres of office and retail space for a 10-year term. Mirvac concurrently sold a 50 per cent interest in 80 Ann Street to M&G Real Estate for a total consideration of $418 million;
- assets under management increased to $12 billion, leading to a significant increase in asset management fees to $16 million;
- completed 664 Collins Street, Melbourne VIC in June 2018 and achieved the topping-out of Building 1 at Australian Technology Park, Redfern NSW; and
- maintained a 5.1 Star NABERS Energy rating average across the office portfolio.

Ms Lloyd-Hurwitz said, "The benefits of the work we've done to reposition the office portfolio are now being realised, with net operating income in our office portfolio up 11 per cent on FY17. This will continue to accelerate as we grow our portfolio through our asset creation capability, with our development pipeline,

1. NTA per stapled security, based on ordinary securities including Employee Incentive Scheme securities.
2. Net debt (at foreign exchange hedged rate) excluding leases/(total tangible assets – cash).
3. By area, including investments in joint ventures and excluding assets held for development.
4. By income, including investments in joint ventures and excluding assets held for development.
5. Excludes leasing of assets under development.
6. Includes Mirvac's share of the joint venture net property revaluation.

which includes Australian Technology Park, 477 Collins Street and 80 Ann Street, expected to add approximately $95 million in additional net operating income by FY23.

"We are one of Australia's largest office managers, with $12 billion of assets under management, and our high-quality portfolio allows us to attract top tier tenants with long lease periods, delivering secure and growing income to the Group.

"Through our unique asset creation capability, we are also creating one of Australia's youngest and lowest capex portfolios, with the portfolio value set to increase as the development pipeline completes."

Industrial portfolio highlights:

- occupancy increased to 100 per cent[1], with a WALE of 7.1 years[2];
- achieved over 100,000 square metres of leasing activity[3];
- formed the Mirvac Industrial Logistics Partnership (MILP) with an investment vehicle sponsored by Morgan Stanley Real Estate Investing. The partnership was seeded by two industrial assets in Victoria that were sold by Mirvac to the partnership for a total consideration of $65.5 million, with Mirvac to retain a 10 per cent interest in the partnership;
- acquired a 16,600 square metre industrial asset in Campbelltown, Sydney NSW on behalf of MILP for a total consideration of $29 million;
- completed the sale of 1900-2000 Pratt Boulevarde, Chicago USA for a total consideration of $52.4 million, slightly above previous book value; and
- achieved practical completion for Buildings 3 and 4 at Calibre in Eastern Creek. Building 3 is 100 per cent leased to online pet supplies company, Pet Circle, for a five-year term, while Building 4 is 100 per cent pre-leased to Sheldon & Hammond for a 10-year term.

"Our industrial portfolio is 100 per cent focused on Sydney and continues to perform well. We continue to look for opportunities to grow our industrial portfolio, as well as assets under management through the Mirvac Industrial Logistics Partnership," Ms Lloyd-Hurwitz said.

Retail portfolio highlights:

- maintained high occupancy at 99.2 per cent[1];
- achieved comparable MAT sales growth of 3.1 per cent and comparable specialty sales growth of 3.7 per cent;
- increased comparable specialty sales productivity to $10,085 per square metre;
- specialty occupancy costs increased slightly to 15.3 per cent (June 2017: 15.0 per cent);
- completed over 66,500 square metres of leasing activity, with average leasing spreads of 2.3 per cent;
- grew the portfolio's exposure to the strong Sydney market, with Mirvac increasing its ownership in East Village, Zetland and the proposed South Village Shopping Centre, Kirrawee to 100 per cent;

1. By area.
2. By income.
3. Includes leasing of assets under development.

- completed the sale of a 50 per cent interest in Kawana Shoppingworld, Buddina QLD to ISPT Pty Ltd for a total consideration of $186 million, based on a capitalisation rate of 5.50 per cent; and
- completed the $19 million redevelopment of Birkenhead Point Outlet Centre, introducing a new premium precinct. The development was 100 per cent pre-leased on completion.

"Our portfolio of bespoke urban retail centres has delivered solid results, despite a competitive retail environment. We have a strategy to deliver unique experiences for our customers, and this approach, along with our strategic weighting to the best and most resilient urban markets, has ensured a continued outperformance in this sector," Ms Lloyd Hurwitz said.

Residential highlights:

- settled 3,400 residential lots, in line with the Group's FY18 target. Defaults remained below 2 per cent;
- secured future income with $2.2 billion of residential pre-sales[1]; Mirvac's existing pipeline supports over 12,000 lot settlements over the next four years;
- delivered gross development margins of 25.4 per cent[2], driven by the Group's ability to buy and sell at the right time, and in the right markets;
- released over 1,800 residential lots across both new and existing projects, with 76 per cent of all released lots pre-sold; and
- supplemented the Group's residential pipeline of over 27,000 lots with the acquisition of approximately 1,900 lots at Olivine, Melbourne VIC.

Ms Lloyd-Hurwitz said, "As we have expected, market conditions in the residential sector have normalised. Our reputation for quality and for delivering superior products for our customers has ensured we are still a favoured residential brand among owner-occupiers.

"We achieved our target of approximately 3,400 residential lot settlements during the financial year, and delivered a return on invested capital of 18.1 per cent. Our gross margins of over 25 per cent reflect our strategy to focus on the strong Sydney and Melbourne markets, as well as our ability to buy and sell at the right time in the property cycle."

Outlook and guidance

Mirvac has provided operating EPS guidance of between 16.8 to 17.1 cpss for FY19[3], which represents an increase in earnings of between 2 to 4 per cent[4], and distribution guidance of 11.6 cpss, which represents DPS growth of 5 per cent.

1. Adjusted for Mirvac's share of JVA and Mirvac managed funds.
2. Excludes previously provisioned projects.
3. Effective in FY19, Mirvac's definition of operating profit will be updated to include share based payments expense and exclude the amortisation of all lease incentives and leasing costs. This change has been implemented to align with market practice. The operating profit is consistent with the Property Council of Australia's (PCA) recommended reporting metric, PCA Funds From Operations or FFO. Please refer to slide 83 in Mirvac's FY18 Additional for more information.
4. Guidance of 2 to 4 per cent growth is based on the restated FY18 EPS of 16.4 cpss. Equivalent FY19 growth is 3 to 4 per cent based on the existing definition of operating profit (FY18 EPS 15.6 cpss).

Ms Lloyd-Hurwitz concluded, “As we reach the mature age of the current property cycle, our focus remains on creating and delivering value for our customers and our securityholders.

“Importantly, we remain strongly committed to our purpose and to designing and delivering invigorating places where people want to live, work, play and shop.”

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