

INVESTOR INSIGHT

NOVEMBER 2018

VILLA WORLD



HELPING PEOPLE REACH HOME



MESSAGE FROM THE MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Home. There's no place like it. It's where our heart is; it's a place of comfort, a sanctuary and where all roads eventually lead.

For Villa World, home is the essence of success and our purpose: **Helping People Reach Home**. It's a simple statement that captures what Villa World is all about. It reminds us that we are more than just a bricks and mortar company. We are unashamedly focused on our people, customers and community.

We are operationalising this focus by stepping up delivery across our product range and in growth corridors in three states. With strong carried forward sales worth around \$278 million, the Company anticipates that around one third of those 845 sales contracts – including an elevated 87-lot land development at **Bella Vista Estate**, south of the Wollongong CBD – will settle during the first half of FY19. A further 21% of contracts, valued at just over \$61 million, are due to settle by the end of the financial year, with the balance of contracts worth in excess of \$108 million settling in FY20.

Significant capital is being deployed into development with eight substantial projects now in market and providing a pipeline of positive revenue contributions over the next few years. Villa World's growth in the Victorian market reflects the Company's strategy to diversify our housing product mix and geographical footprint. We are now ramping up delivery of prior year sales at land-only projects **Sienna Rise** and **Lilium**.

Our Queensland market continues to deliver sales with several flagship projects providing significant exposure in a market with identified growth potential. The Company has actively pursued the land only segment of the market, most recently launching a 29-home display village, at **Killara**, in Logan.

As highlighted, the predominant business driver in the current financial year is delivery. Residential market conditions continue to moderate, however the more resilient affordable segment of the property market is a sound position for the Villa World business to remain focussed on.

The Company continues to stay true to its core market with well-located, affordable to mid-priced house-and-land packages under our no-variations, all-inclusive turnkey model. We are committed to growing our capital lite model in order to improve the return on assets delivered to shareholders. With our strong investment in operational delivery and cash settlements achieving sustained earnings, combined with a well-stocked land bank for future developments, the Company has confirmed that limited new acquisitions are anticipated this year.

The Villa World Board approved an on-market buy-back for up to 5% of issued ordinary shares. Villa World shares are trading below NTA, which does not reflect the underlying value of current inventory. The NTA calculation does not reflect the benefits gained from favourable market conditions since the time of acquisition, value added from development progress and Villa World's proven profitable construction model.

The announced buy-back represents a strategic and prudent deployment of capital, being NTA and earnings per share accretive. Having activated the buy back, Villa World to date has acquired 321,699 shares worth \$0.6 million. The buyback will be effective until October 2019.

Villa World maintains a clear and deliberate strategy of seeking consistent, through-the-cycle performance. Following four years of consistent revenue growth, the Company again delivered a strong FY18 result, and has a positive medium-term outlook underpinned by the strong carried forward sales into FY19 and FY20, as outlined.

Assuming no material changes in market conditions, the Company continues to target a statutory profit after tax of approximately \$40 million in FY19, with the Board guiding to an FY19 full-year dividend of 18.5 cents per share fully franked. That equates to a compelling 9% yield.



“WITH STRONG CARRIED FORWARD SALES WORTH AROUND \$278 MILLION, THE COMPANY ANTICIPATES THAT AROUND ONE THIRD OF THOSE 845 SALES CONTRACTS WILL SETTLE DURING THE FIRST HALF OF FY19 ”

In line with industry peers and the Board’s commitment to provide clear and transparent information, in FY19 the Company will change (i) the presentation of borrowing costs previously capitalised into the cost of inventory sold and impairments, and (ii) sales, production and settlement statistics. These changes are detailed in this Investor Insight. These reclassifications will not impact our net profit after tax guidance, however as a result of these changes in accounting classifications, the Company is targeting a gross margin range of 23% to 25%, reduced from 24% to 26%.

I invite Villa World shareholders to attend the Company’s Annual General Meeting on Friday 16 November, in the Sorrento Meeting Room, Sofitel Gold Coast, 81 Surf Parade, Broadbeach, commencing at 10.00am (Queensland time).

The meeting will include an update on implementation of the Company’s new purpose and belief statements which include the continued development and encouragement of wider diversity and skills within the Company and in our Boardroom.

Among the resolutions, shareholders will be asked to vote on the election of Lisa MacCallum as a non-executive director.

Lisa brings a global commercial and brand perspective to Villa World, having extensive experience as an advisor and brand strategist including a long career with Nike Inc in the United States, where she held executive positions spanning commercial and brand leadership roles through to executive leadership of the global brand’s Corporate Philanthropy and Global Community Investments. Lisa began her professional career in accounting, finance and consulting with KPMG in Australia and overseas.

Villa World continues to emphasise the importance of our people and our customers, with our strong delivery focus contributing to consistently strong results as we are **Helping People Reach Home.**

Craig Treasure

Managing Director and
Chief Executive Officer

MARKET UPDATE

While the economic fundamentals remain positive, with low interest rates, strong population growth and steady employment, residential market conditions continue to moderate. Buyers remain challenged by tightening by financial institutions and delays in finance approvals. The acknowledged value of the Villa World product, its affordable price point and the strategic development locations continue to generate sales interest. The year ahead is characterised by a strong delivery focus, notably land only projects in Victoria and the continuation of housing construction in New South Wales and Queensland.



Aerial of Killara - Logan Reserve

QUEENSLAND

The new residential housing story in Queensland remains positive, supported by increased economic activity and population growth. Villa World's strong product positioning within the affordable owner occupier market in Queensland continues to attract steady sales.

BRISBANE NORTH

Brisbane's northside has proven a highly successful market for the Company, with strong brand recognition driving continued demand for Villa World homes and land. Early sales at the much anticipated 402-lot development, **The Meadows**, at Strathpine, has seen stage one sold out and prompted the release of stage two homes.

LOGAN CITY

An estimated population the size of Cairns will ultimately occupy the Logan City growth corridor, including Villa World's largest-ever Queensland project.

The flagship 1502-lot joint venture **Covella** community, located in the high growth greenfield corridor of Greenbank, is unfolding with a 19-lot display village now fully accounted for and the 153-hectare site tipped as South East Queensland's new population and employment powerhouse region. Stage one and two sales are well advanced, prompting the release of the next stage.

Covella's rise followed the 300-lot **Chambers Ridge** project in neighbouring Park Ridge, where the centrepiece community parklands and two new display homes have now taken shape.

Similarly, the 714-lot **Killara** residential community at Logan Reserve is rapidly emerging with the opening of a builders' display village attracting plenty of interest, particularly among first home buyers seeking value and lifestyle options. The 29-home display village showcases a large range of Queensland's most prominent builders and is attracting strong buyer interest in parkland home sites. Demand-driven construction has seen two stages completed, two nearing completion and a further two due by the end of FY19.

The three Logan communities promote active and healthy lifestyles with the provision of significant green space, parkland and recreational facilities including bike and walking paths, playgrounds and barbecue areas. These amenities, and the proximity to major retail and transport infrastructure, are attracting strong support from building partners as well as retail customers.

GOLD COAST

At **Arundel Springs**, one of the last premium land releases on the central Gold Coast, the first four stages are sold out and the final premium stages five and six are under construction in conjunction with the development's central parklands. Release of the final stages has drawn a strong uptake in sales.

A selection of three-bedroom townhouses, known as **Arundel Springs Residences**, is also under construction following release to the market in October. An inspiring aspect overlooking the central parklands, combined with proximity to light rail, health and education precincts is expected to drive buyer interest among owner-occupiers and investors.



VICTORIA

Delivery of carried forward sales will see a further upswing in construction activity across a number of Villa World's projects in Victoria.

MELBOURNE SOUTH EAST

Stages one through seven of the 391-lot **Lilium** development, at Clyde North, are virtually sold out with the final three stages released for sale. Intensive civil construction work across the first six stages are underway with completion targeting mid calendar year 2019.

MELBOURNE NORTH WEST

Melbourne's North West corridor, centred around the Caroline Springs and Taylors Hill Town Centres, continues to experience consistent growth and housing demand. The area boasts easy freeway access to the CBD and is proving popular with growing families.

The Company has a strong sales track-record in the north-west, stemming back to the 165-lot **Sienna** which opened in 2015 and is now completed. The adjacent 609-lot **Sienna Rise** and **Sienna North** developments are carrying forward sales from the prior year and continue to sell well. Initial stages of both Sienna Rise

and Sienna North are under construction, to deliver over 270 lots in total, with completion commencing mid calendar year 2019.

During FY18 the Company entered into a development rights agreement over a 15ha site called **Carolina** close to Caroline Springs, which will deliver product continuity in the corridor through a 317-lot subdivision. The Company will also deliver its core house and land product at the 372-lot **Marlee** development (formerly **Emerson Green**), to be launched in FY19.

MELBOURNE NORTH

Following successful projects at Greenvale, the Company's presence north of the Melbourne CBD will be maintained with the sales release of the 290-lot **Elyssia** land-only project at Wollert, a joint venture project with Ho Bee Land. Villa World will receive fees for development management, sales and marketing coordination, and has the potential to receive a performance fee.

With the Elyssia sales suite recently opened, and well-priced land offering strong sales, the development is expected to be delivered in FY20.



NEW SOUTH WALES

The housing market slow down has broadened across the Sydney market. Villa World continues to address the affordability challenge, with the release of medium density product in Sydney's south-west.

Pleasingly, construction of 87 land-only lots at the sold-out Bella Vista estate in the Illawarra region is complete. Cash settlements have commenced and are expected to be finalised throughout November.

NORTH-WEST SYDNEY

Earlier this year the Company celebrated completion of the first houses at **Allure**, in Box Hill, with the overall product quality and value well-received by the market. Housing construction is progressing and on target to be completed this financial year, with product continuity available at the neighbouring 34-lot land-only **Hillsbrook** project.

SOUTH-WEST SYDNEY

Villa World has commenced delivery of a mix of affordable house and terrace home product at **The Concourse** and **Aston** projects in Oran Park. Civil and housing construction has commenced at the initial stages of the 93-lot **The Chase**, which will be delivered under a capital lite model.



CHANGES TO ACCOUNTING CLASSIFICATIONS

In line with industry peers and the Board's commitment to provide clear and transparent information, in FY19 the Company will change (i) the presentation of borrowing costs previously capitalised into the cost of inventory sold and impairments, and (ii) sales, production and settlement statistics.

PRESENTATION OF BORROWING COSTS CAPITALISED WITHIN INVENTORY

As detailed in Note B1 in the FY18 Annual Report, land held for resale is stated at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and capitalised borrowing costs.

Historically, when revenue is recognised on land development and residential housing, borrowing costs previously capitalised into inventory have been presented within Total Finance Costs (refer Note C5 in the FY18 Annual Report). In FY19, when revenue is recognised on land development and residential housing, borrowing costs previously capitalised into inventory will be presented within cost of inventory sold. The impact of the reclassification of the previously capitalised borrowing costs will be an equal and opposite decrease in finance costs and increase in cost of inventory sold.

PRESENTATION OF IMPAIRMENTS

As detailed in Note E5 of the FY18 Annual Report, the Company periodically assesses the carrying value of assets against their recoverable amount.

Historically, net (impairment)/reversal of impairment of developed land was disclosed in the profit and loss after the determination of gross margin. In FY19, net (impairment)/reversal of impairment of developed land will be disclosed in cost of inventory sold.

IMPACT OF RECLASSIFICATIONS

The changes will not impact net profit after tax however gross margin, EBITDA, and finance costs will vary.

The changes in accounting classifications lower the reported gross margin, with the Company now targeting a gross margin range of 23% to 25%, reduced from 24% to 26%. Refer to Annexure 1 for FY18 results with a revised comparative.

SALES, PRODUCTION AND SETTLEMENT STATISTICS

Statistics associated with sales, production and settlements will change for joint ventures and split contracts. Where previously they were recorded in line with Villa World's ownership interest or as part of a whole transaction (i.e. 0.5), they will now be recorded as one single transaction. This simplification of statistical reporting will have no impact on financial information. There are no changes in reporting statistics at the joint venture level.

Villa World	FY18 Recognition	FY19 Recognition
Joint venture sales, production and settlements	0.5	1
Split contract – Land	0.5	1
Split contract – House	0.5	1



Villa World Limited
Consolidated income statement
for the year ended 30 June 2018

		Consolidated	
	Notes	Reported 2018 \$'000	Revised 2018 \$'000
Revenue from continuing operations			
Revenue from land development, residential building and construction contracts	A1(a)	441,573	441,573
Cost of land development, residential building and construction contracts	A1(a)	(323,975)	(323,975)
Gross margin before interest and net impairments		117,598	117,598
Capitalised interest and net impairments	A1(a)	-	(6,157)
Gross margin		117,598	111,441
Revenue from development and project management fees		11,134	11,134
Other income		1,049	1,049
Net impairment of development land		(399)	-
Share of profit from associates and joint ventures		6,374	6,374
Other expenses from ordinary activities			
Property sales and marketing expenses		(25,509)	(25,509)
Land holding costs		(4,559)	(4,559)
Legal and professional costs		(2,515)	(2,515)
Employee benefits		(25,037)	(25,037)
Depreciation and amortisation expense		(710)	(710)
Administration costs and other expenses		(6,772)	(6,772)
Other finance costs	C5	(8,672)	(2,914)
Profit before income tax		61,982	61,982
Income tax expense		(18,348)	(18,348)
Profit for the period		43,634	43,634
Profit is attributable to:			
Owners of Villa World Limited		43,634	43,634



A1 Revenue

(a) Gross margin

	Consolidated	
	Reported 2018 \$'000	Revised 2018 \$'000
Revenue from land only development	207,617	207,617
Revenue from land development, residential building and construction contracts	233,956	233,956
Revenue from land development, residential building and construction contracts	441,573	441,573
Cost of land only development	(142,554)	(142,554)
Cost of land development, residential building and construction contracts	(180,919)	(180,919)
Other direct costs ¹	(502)	(502)
Cost of land development, residential building and construction contracts	(323,975)	(323,975)
 Gross margin before interest and net impairments	 117,598	 117,598
 Gross margin before interest and net impairments	 26.6%	 26.6%
 Cost of inventory sold		
Cost of land development, residential building and construction contracts	(323,975)	(323,975)
	(323,975)	(323,975)
Capitalised interest expense	-	(5,758)
Net impairment of development land	-	(399)
	-	(6,157)
Total cost of inventory sold	(323,975)	(330,132)
 Gross margin	 117,598	 111,441
 Gross margin	 26.6%	 25.2%

1. Includes provisions raised for warranty claims or released where warranty term has expired.

C5 Finance costs

Accounting for finance costs

The interest incurred method is currently utilised for all Villa World projects. Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

Interest allocation which relates to non-qualifying assets is expensed. For each accounting settlement the actual capitalised interest is then expensed / (unwound) on a per lot basis through finance costs. Once an asset has been impaired or development activity has ceased, then subject to detailed review and Board approval, capitalisation of interest may cease and the borrowing costs will be expensed in the month incurred.

	Consolidated	
	Reported 2018 \$'000	Revised 2018 \$'000
Loan interest and charges		
Financial institutions	7,960	7,960
Unwind of discount deferred consideration	196	196
Interest payable on Villa World Limited Bonds	3,254	3,254
Borrowing costs	576	576
Fair value loss / (gain) on interest swap cash flow hedge	19	19
	12,005	12,005
 Amount capitalised ¹	 (9,091)	 (9,091)
Unwind of amount capitalised ²	5,758	5,758
Capitalised interest expense attributable to inventory sold	-	(5,758)
Total other finance costs included within the income statement	8,672	2,914

1. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.6% for club facility borrowings (30 June 2017: 9.5%) and 7.2% for borrowing costs associated with Villa World Bonds (30 June 2017: 7.2%).

2. Capitalised interest on sale of land unwound at settlement on a per lot basis (refer note A1).

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