

15 February 2017

Villa World Reports Results for Half Year Ended 31 December 2016

Villa World (ASX: VLW) has marked its half-year with strong sales, delivery and increased revenue contributing to a \$19.6 million statutory profit after tax. The positive 1H17 result includes a guidance increase in the expected full year result representing growth of 11% on FY16.

- Statutory profit after tax of \$19.6 million (1H16: \$20.4 million)
- EPS: 17.4 cps (1H16: 18.5 cps)
- FY17 guidance increased to profit after tax of \$37.5 million, representing growth of 11% over FY16 (\$33.7 million). EPS guidance of 33.1 cps (FY16: 30.6 cps)
- 8.0 cps fully franked interim dividend declared post balance date (1H16: 8.0 cps)
- Guidance for total dividend for FY17 increased to 18.5 cents per share fully franked
- 554 sale contracts carried forward with a gross value of \$191.6 million¹
- Acquisitions success – 1,496 lots acquired.

Financial Result

The Company has reported a strong 1H17 result, including a statutory net profit after tax of \$19.6 million (17.4 cps), compared to a net profit after tax of \$20.4 million (18.5 cps) for 1H16. This is within the guidance range of \$19.5 - 21.4 million released on 6 December 2016, with sales at certain Victorian land and housing projects carried forward into 2H17.

Operational Performance

Continued sales momentum combined with an outstanding delivery of land and housing resulted in 592² accounting settlements in 1H17 (1H16: 550). As a result, revenue increased by 5% to \$209.4 million (1H16: \$200.2 million).

The reported gross margin was \$54.7 million or 26.1% (1H16: \$55.0 million or 27.5%).

During 1H17 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 \$1.0 million in fee income in 1H17 (1H16: \$1.2 million). The Company anticipates development and project management fees will provide an ongoing revenue stream for the business.

The share of profit from equity accounted investments was \$0.9 million in 1H17 (1H16: \$3.5 million).

Sales Performance

The Company recorded 673 sales during 1H17, up 35% on 1H16 (497 lots). With 24 projects at various points in the life cycle selling during the remainder of FY17, the Company expects to better its FY16 sales performance of 1,185 sales.

CEO and Managing Director Mr. Craig Treasure said, "Strong demand in our key market segments and continued disciplined project delivery places Villa World in a very positive position as we head into the second half of the year.

¹ Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST.

² 576 settlements of Company owned lots (1H16: 550), and 16 lots relating to joint ventures (1H16: nil), which are reflected in Share of Joint Venture Profits.

With several of our major projects now approaching sellout, Villa World looks forward to strong interest in new flagship projects in the top-performing Brisbane-Gold Coast corridor.”

Queensland has continued to perform very well, contributing 68% of sales (1H16: 80%). The Company is pleased to see continued growth in its Victorian projects, contributing 26% of sales (1H16: 20%), with New South Wales making up the remainder. 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 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 investors³.

The Company will carry forward 554 sales contracts worth \$191.6 million⁴ into 2H17. 86% of contracts (479 lots valued at \$161.0 million) are anticipated to settle in 2H17, with the balance settling in FY18. The strong carried forward sales, when combined with the Company’s continued sales focus, place the Company in a very strong position for the remainder of FY17.

Cash Flow Performance

Strong operating cash flows of \$117.3 million enabled the Company to expend \$66.6 million on the acquisition of new land.

Balance Sheet

Net tangible assets at half year-end were \$249.8 million (FY16: \$236.9 million), representing \$2.20 per share (FY16: \$2.15) before the declaration of the interim dividend. The Company continues to maintain a prudent gearing level at 23.0% (25.6% as at 30 June 2016), within the targeted range of 15-30%. Net debt as at 31 December 2016 was \$97.0 million.

Portfolio

The Company continues to execute on 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.

In 1H17, the Company acquired 1,496 lots. Importantly, a joint venture was entered into with Greenfield Development Company for a project in Greenbank, which added ~750 lots (50% share), to the South East Queensland pipeline.

The Company is progressing the expansion of its footprint by re-entering the New South Wales market primarily through capital efficient partnering arrangements.

As at 31 December 2016 the Company has a portfolio of 6,386 lots (FY16: 5,937 lots), representing approximately 5.4 years of sales.

1H17 Dividend

The Board has declared an interim dividend of 8.0 cents per share fully franked post balance date.

The ex-dividend date for the interim dividend is 8 March 2017, the record date is 9 March 2017, and payment is scheduled for 31 March 2017.

Outlook

In 2H17 the Company’s focus will remain on delivering and settling carried forward sales and releasing flagship projects Killara (Logan) and Arundel Springs (Gold Coast). With 24 projects at various points in the life cycle

³ Less than 5% of 1H17 sales were to international investors.

⁴ Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST.

selling during the remainder of FY17, the Company expects to better its FY16 sales performance, achieving at least 1,185 sales.

The Company continues to progress its strategy of growing joint venture arrangements. In FY17, these arrangements will contribute to \$3.4 million to profit comprising development and project management fees, and share of profit.

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 FY17 gross margin is expected to be within the range of 24% to 26%.

The Company has a continued commitment to acquire development sites. The near term focus will remain on growing a presence in New South Wales through partnering, the replenishment of the portfolio in South East Queensland, and growing the Victorian land bank with a focus on the South Eastern and Northern growth corridors of Melbourne.

The Company will continue to progress the expansion of its project footprint, with a longer-term strategy of cementing a place as a leading east coast residential developer. The Company expects cash outflow for acquisitions of \$60 million to \$85 million in FY17 funded from existing debt facilities and working capital and \$40 million in capital lite transactions.

Ongoing consideration will be given to capital management strategies, including the diversification and maturity of the Company's debt facilities.

FY17 Guidance

Assuming general consumer confidence is maintained, interest rates remain low and first home buyer grants remain in place, the Company is targeting statutory profit after tax of \$37.5 million in FY17, an increase of 11% on FY16 (\$33.7 million). This represents EPS of 33.1 cps (FY16: 30.6 cps). This result is underpinned by strong carried forward sales, continued sales momentum across the Company's markets, an increased delivery capability and greater clarity on delivery.

Mr. Treasure said, "Villa World maintains a track record of earnings growth and strong fully franked dividends for shareholders, under the guidance of an experienced and proven management team."

FY17 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 NPAT, paid semi-annually. The Board anticipates paying total dividends of 18.5 cents per share fully franked in FY17.

1H17 Financial Results live audio stream

The Company's 1H17 results presentation will be webcast on Wednesday 15 February 2017 at 2pm AEDT at the following link <http://webcast.openbriefing.com/3278/>.

Subsequently, the webcast will be archived on the Company's website (<http://www.villaworld.com.au/investor-centre/media-release/videos>) and at <http://www.openbriefing.com/OB/2394.aspx>.

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