

Half Year Results 2019 Presentation

11 FEBRUARY 2019



AVJennings®

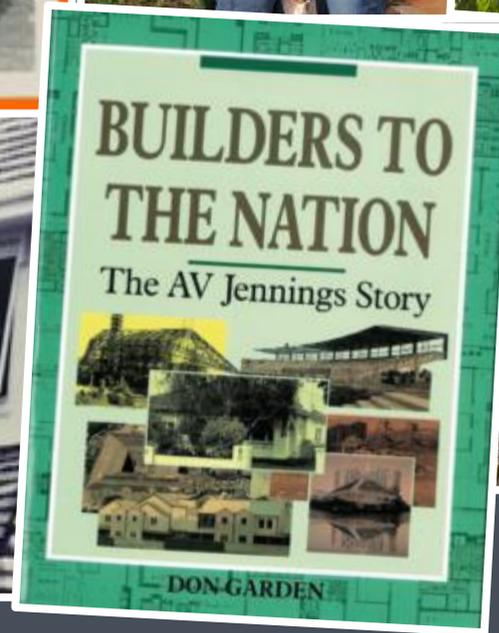
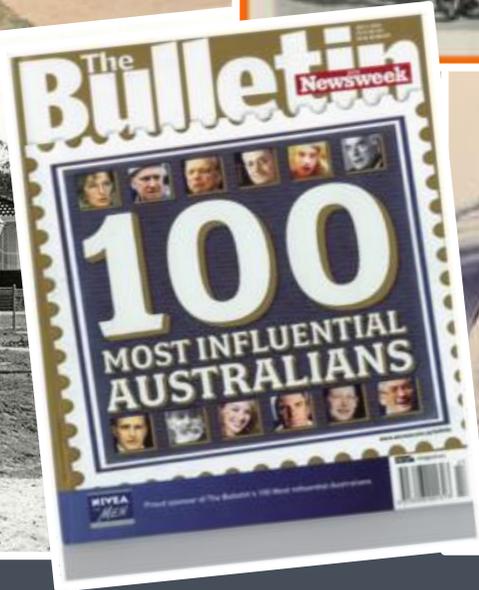
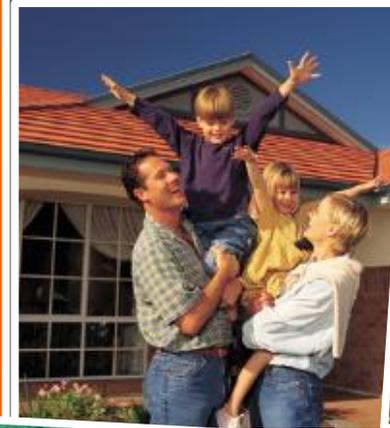
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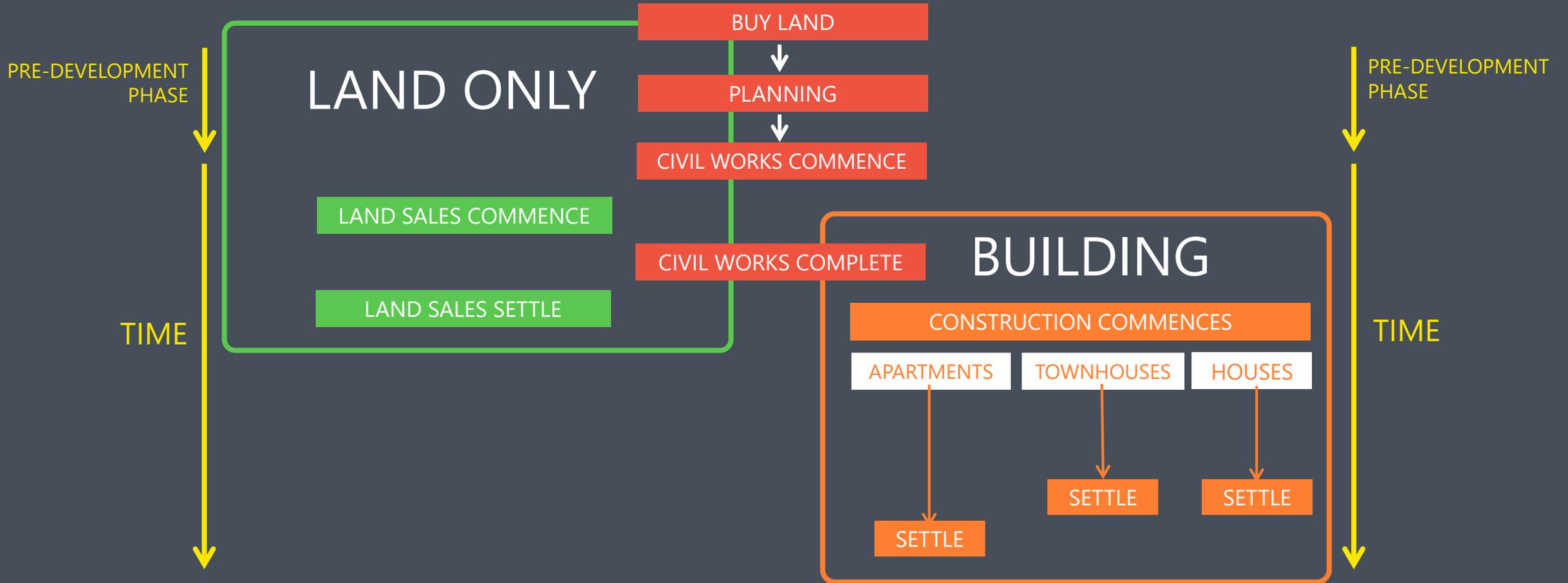
**Housing matters.
Community matters.**

Building on our past. Shaping your future.



What We Do

(1) We buy land (2) develop and sub-divide it (3) then sell a mix of land and AVJ built homes on our land



1H19 Summary

FINANCIAL RESULTS

- Revenue \$113.2m; PBT \$2.2m
- Down on 1H18:
 - Expected bias to 2H19
 - Deferral of revenue across major projects (Spring Farm, Cobbitty, Hobsonville, Lyndarum-North) mainly into early months of 2H19
 - Softer market conditions.

OPERATING MODEL FOCUSED ON CUSTOMER DEMAND AND CASH GENERATION

- 883 pre-sold lots at Dec '18 supports future cash flow and profitability:
 - 157 lots settled since contributing ~\$9M in GM
 - 532 lots expected to settle in 2H19
- Horizontal development activity tailored to meet expected demand:
 - WIP of 2,241 lots includes 476 pre-sold lots anticipated to complete and settle before 30/06/19.

RESPONSIBLE CAPITAL MANAGEMENT

- Fully franked 1 cent per share dividend
- DRP suspended
- Diversified land bank asset base with ~10k lots maintained
- Low gearing ratio: 29% net debt / total assets
- Strong cash flow outlook and flexibility.

1H19 Results – Financial summary

	1H19	1H18	% Change
TOTAL REVENUE	\$113.2m	\$184.6m	(38.7%)
STATUTORY PROFIT BEFORE TAX	\$2.2m	\$22.4m	(90.3%)
STATUTORY PROFIT AFTER TAX	\$1.4m	\$15.5m	(90.8%)
GROSS MARGINS	21.3%	25.2%	(3.9pp)
NET TANGIBLE ASSETS (NTA)	\$382.1m	\$379.9m	+0.6%
NTA PER SHARE	\$0.94	\$0.99	(5.0%)
EPS (CENTS PER SHARE)	0.4	4.0	(91.0%)
DIVIDEND FULLY FRANKED (CPS)	1.0	2.0	(50%)

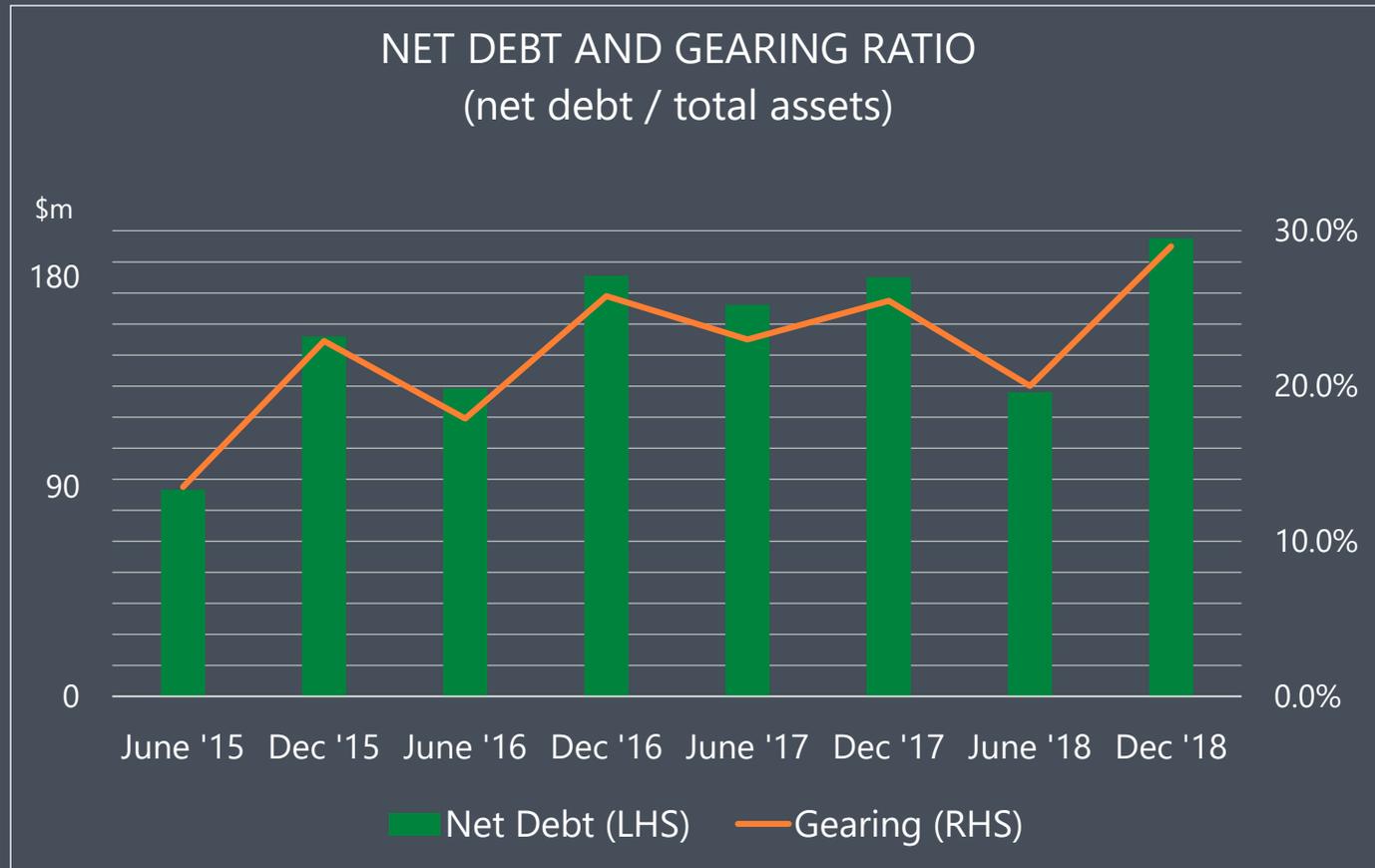
- Lower results reflect the deferral of revenue across major projects into 2H19 and softer market conditions
- Despite lower EPS a 1 CPS fully franked dividend was declared given the relative strength and visibility of earnings in 2H19
- The new revenue accounting standard AASB15 came into effect on 1st July 2018. Had the prior accounting standard (AASB118) continued to operate, the profit before tax reported would have been approximately \$1 million.

1H19 Results – Balance Sheet

\$ MILLIONS	December 2018	June 2018
CURRENT ASSETS		
Cash and cash equivalents	2.7	8.5
Inventories	250.6	193.3
Total Current Assets	282.6	304.1
NON-CURRENT ASSETS		
Inventories	370.0	295.0
Total Non-Current Assets	400.9	336.3
TOTAL ASSETS	683.5	640.4
CURRENT LIABILITIES		
Trade and other payables	43.1	38.4
Total Current Liabilities	108.2	68.4
NON-CURRENT LIABILITIES		
Interest bearing loans and borrowings	140.5	125.8
Total Non-Current Liabilities	190.3	173.0
TOTAL LIABILITIES	298.5	241.4
NET ASSETS	385.0	399.0

Note: Adoption of the new revenue accounting standard AASB15 resulted in reversal of approximately \$12M from opening retained earnings, being the revenue and associated cost of sales recognised on contracts with builders in Australia that were unconditional but where control had not passed at 30 June 2018.

Strong balance sheet



- 29% gearing is comfortably inside 15-35% target range
- Increase since June 2018 largely reflects settlement of Hall Farm, NZ
- Strong net cash flow outlook and flexibility:
 - Cash flows from settlements of pre-sales
 - Solid WIP levels allow flexibility to moderate future production if required
 - Low land creditor balance of \$54.9m.
- Maintain scope for selective acquisitions.

1H19 Results – Cash Flow Statement

\$ MILLIONS	1H19	1H18
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	141.2	239.4
Payments to suppliers, land vendors and employees	(183.8)	(224.7)
Net cash used in operating activities	(61.1)	(1.0)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for joint venture related activities	0.0	(2.0)
Net cash used in investing activities	(0.1)	(1.3)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	149.5	112.6
Repayment of borrowings	(89.2)	(92.6)
Net cash from financing activities	55.4	6.5
NET INCREASE / (DECREASE) IN CASH HELD	(5.8)	4.2

Includes land acquisitions;
 1H19 \$59.5M
 1H18 \$79.5M

Current market dynamics

As previously flagged, market conditions were expected to soften, particularly in Sydney and Melbourne:

- Price increases in recent years had led to affordability and sustainability concerns
- Three elections in FY19 - NSW, Victoria and Federal
- Early signs from impacts of the Banking Royal Commission.

Effects have been stronger than expected, particularly in relation to:

- The political landscape, including another new Prime Minister, and generally greater dissatisfaction in politics from the public
- The Banking Royal Commission.

These dynamics led to significant negative consumer confidence in relation to residential property:

- Confidence has been further eroded by saturated, extreme media coverage.

Consumer confidence and sentiment towards the sector has weakened

How the federal election will shape house prices

Feb 1 2019 | 6 mins read |

If S
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Pessimistic consumers now outweigh optimists, says Westpac, Melbourne Institute

Jan 16 2019 | 2 mins read |

Pessimistic consumers outweighed optimistic ones for the first time in Westpac and the Melbourne Institute, in a sign that "confidence has collapsed".

Morgan Stanley warns the rate of property price falls may be 'difficult for the economy to absorb'

Feb 3 2019 | 3 mins read |

Residential property prices are falling too fast for the broader economy to absorb and could force the RBA to cut rates to prevent a consumer slowdown, job losses and weakening dollar, according to Morgan Stanley.



How the Hayne report will affect house prices

Ingrid Fuary-Wagner | AMP Capital chief economist Shane Oliver said the final report showed the royal commission was "not pointing to any further tightening".

Building drop rings warning bells



DAVID UREN

The apartment building boom is collapsing rapidly, threatening the optimistic outlook for the economy.

Home values slump by \$51bn



TURI CONDON

The lending clampdown and falling prices have taken their toll on the property market, new CoreLogic data reveals.

Building approvals dive in Dec

JAMES GLYNN

The number of new homebuilding approvals plunged in December, raising fears a housing slump will drag on the economy.

Auction numbers down by 33pc, results 'still weak'



Danger Zone: The top sub settlement risk

Michael Bleby | Sydney tops the list of suburbs problems, but Melbourne, Brisbane, Perth and Adelaide are also high ranking.

Sentiment over negative gearing a bigger apartment risk than actual policy: JLL

Feb 3 2019 | 4 mins read |

Sentiment around changes to policies such as negative gearing is a bigger risk to Australia's faltering apartment market than the actual changes themselves, JLL says.

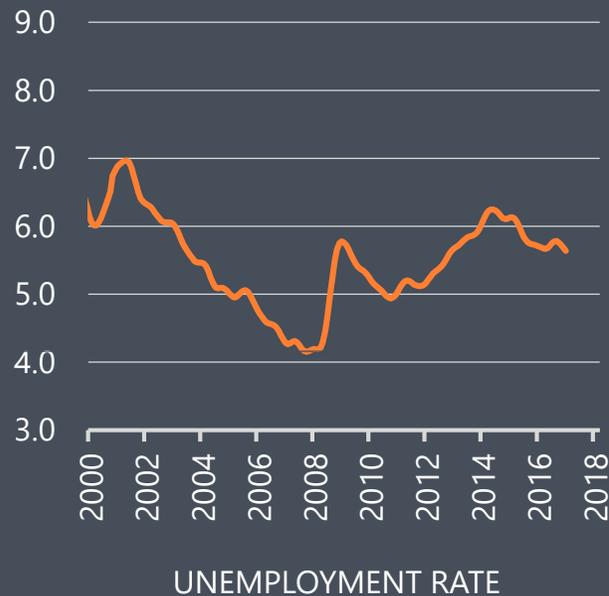
But the sector's outlook continues to be supported by positive economic fundamentals

POPULATION GROWTH

Population growth remains focused on Australia's capital cities



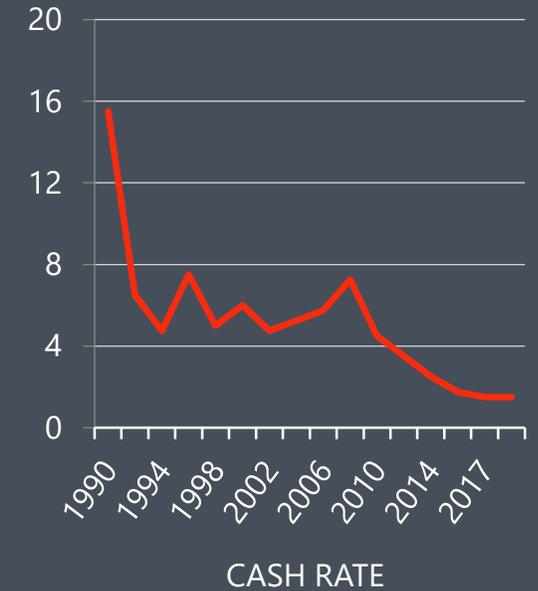
STABLE EMPLOYMENT



REAL GDP GROWTH



INTEREST RATES



Source: Australian Bureau of Statistics

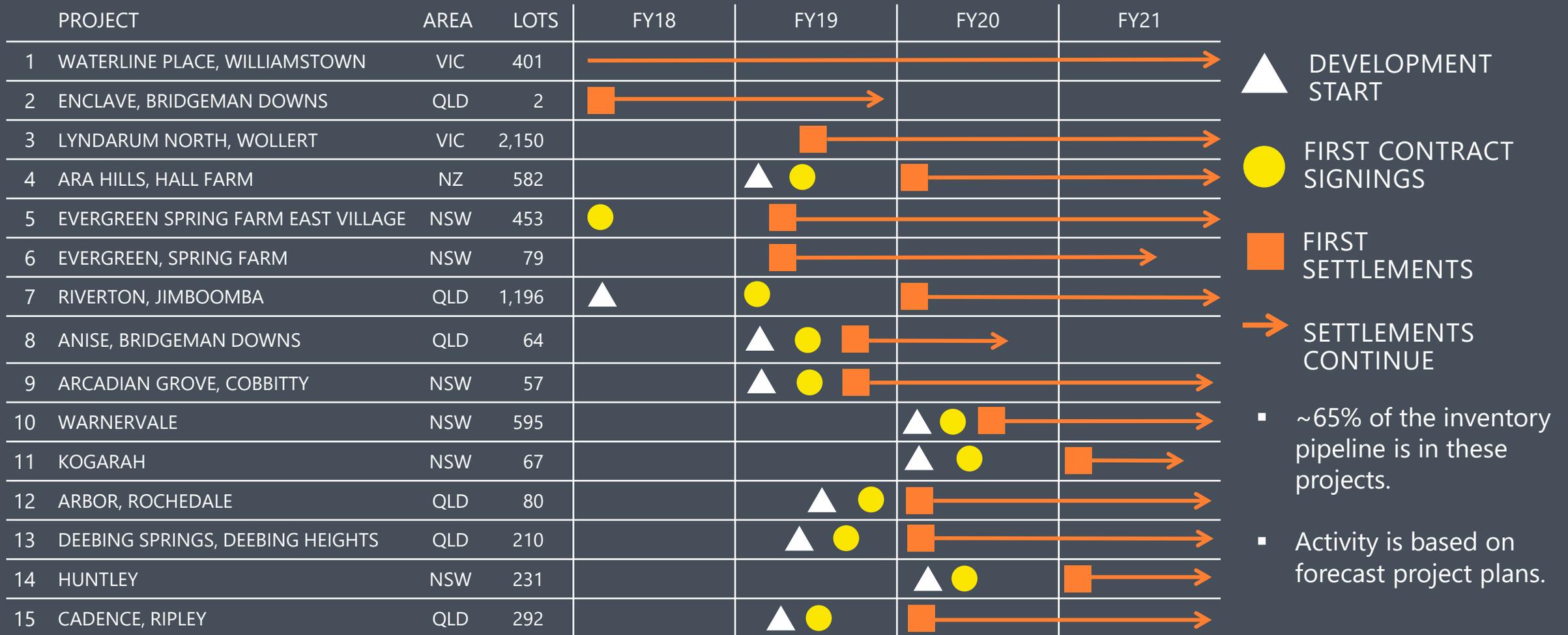
Second half (FY19) focus

- Settlement of pre-sales
- Monitor inventory levels against market conditions:
 - Minimise unsold completed inventory
 - Adjust WIP levels in-line with market conditions
 - Leverage horizontal development model advantages
- Strong focus on operational efficiency across the business:
 - COO appointed
 - Greater centralisation to drive efficiency and overall outcomes
 - Monitor overheads
- Maintain strategy of increasing emphasis on built form over land-only:
 - Including completion of first dwellings constructed in NZ by AVJennings
 - At Hobsonville, using greater modularisation techniques
- Focus on capital management and long term shareholder value
- Continue to assess opportunities for acquisitions representing good long term value in areas which are supported by strong fundamentals.

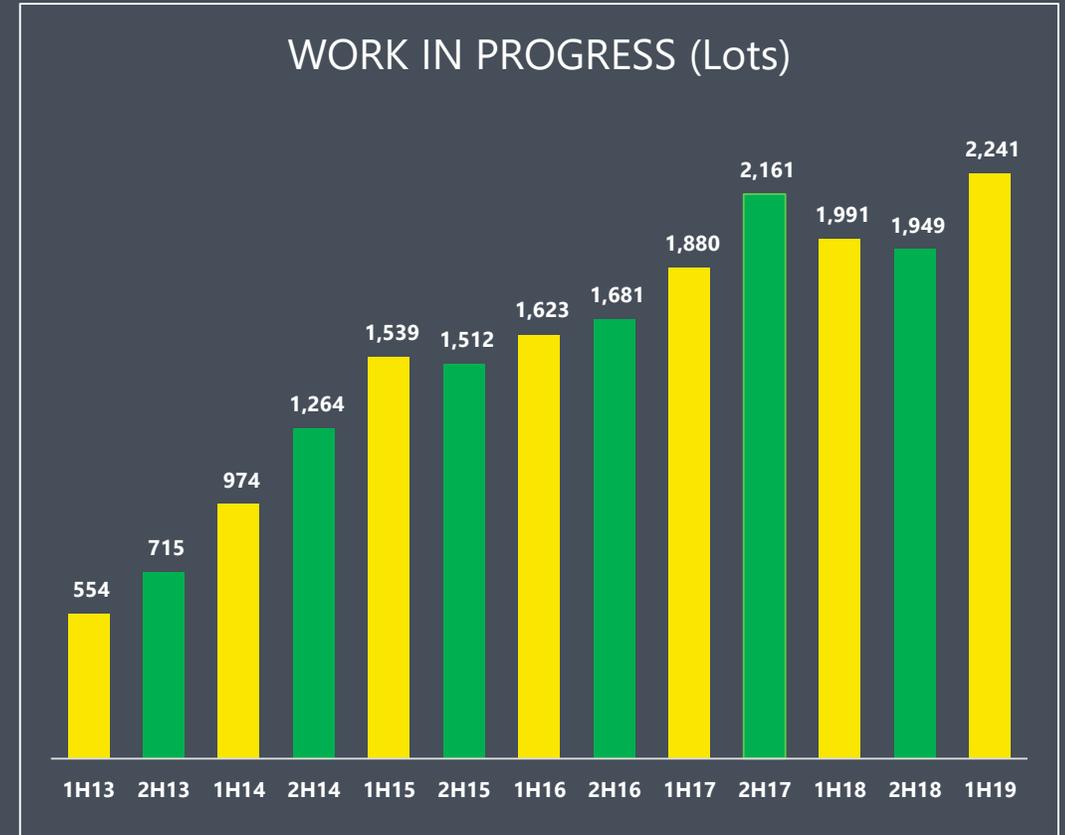
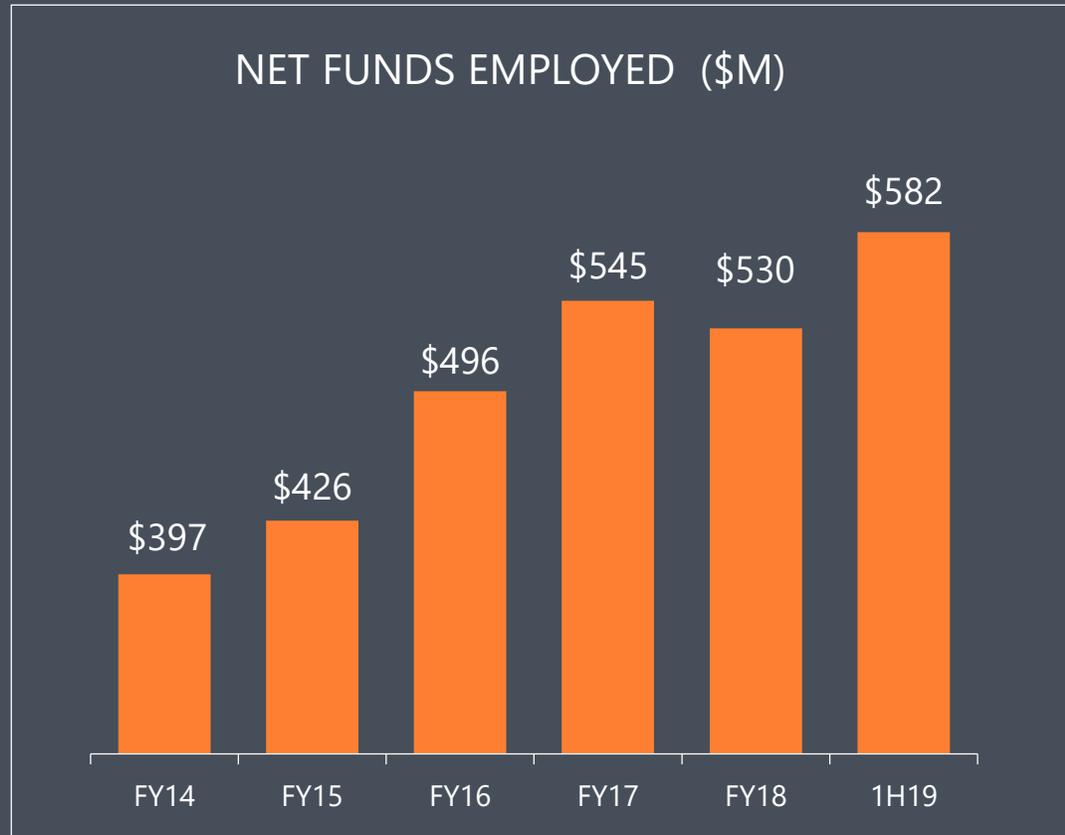


Appendices

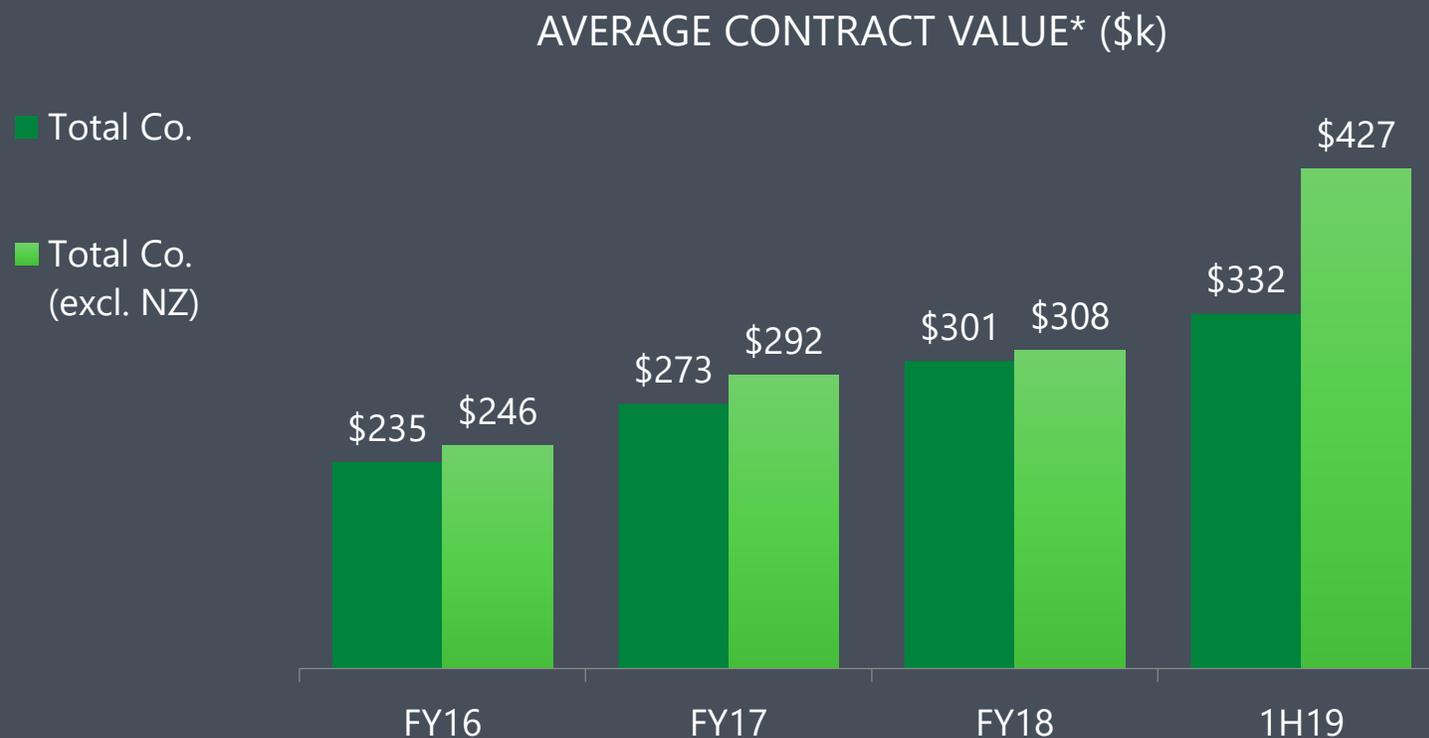
New projects driving cash receipts beyond FY19



Net Funds Employed and WIP



Increasing average contract value as we sell more built form product

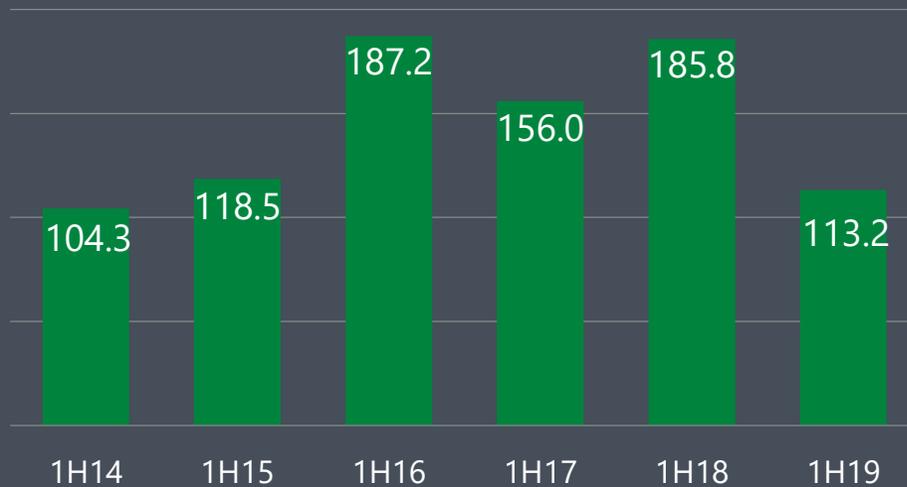


This is an intentional re-balancing of our product pipeline towards retail customers and more built form. Built form increases the project value and extends the amount of time between development starting and settlement.

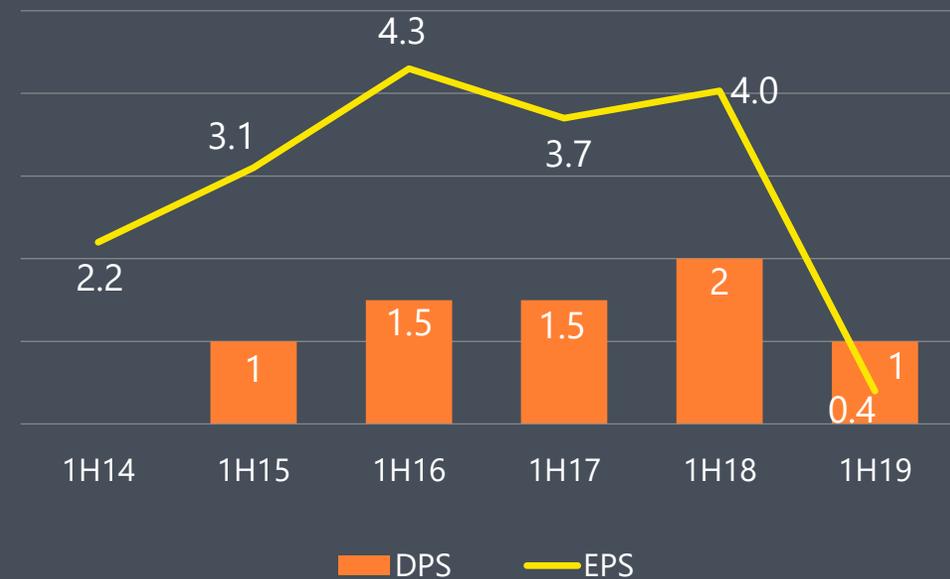
* Average contract value is based on net contract price to AVJennings

Financial scale and dividend history

REVENUE (\$M)



EARNINGS AND DIVIDENDS (CPS)

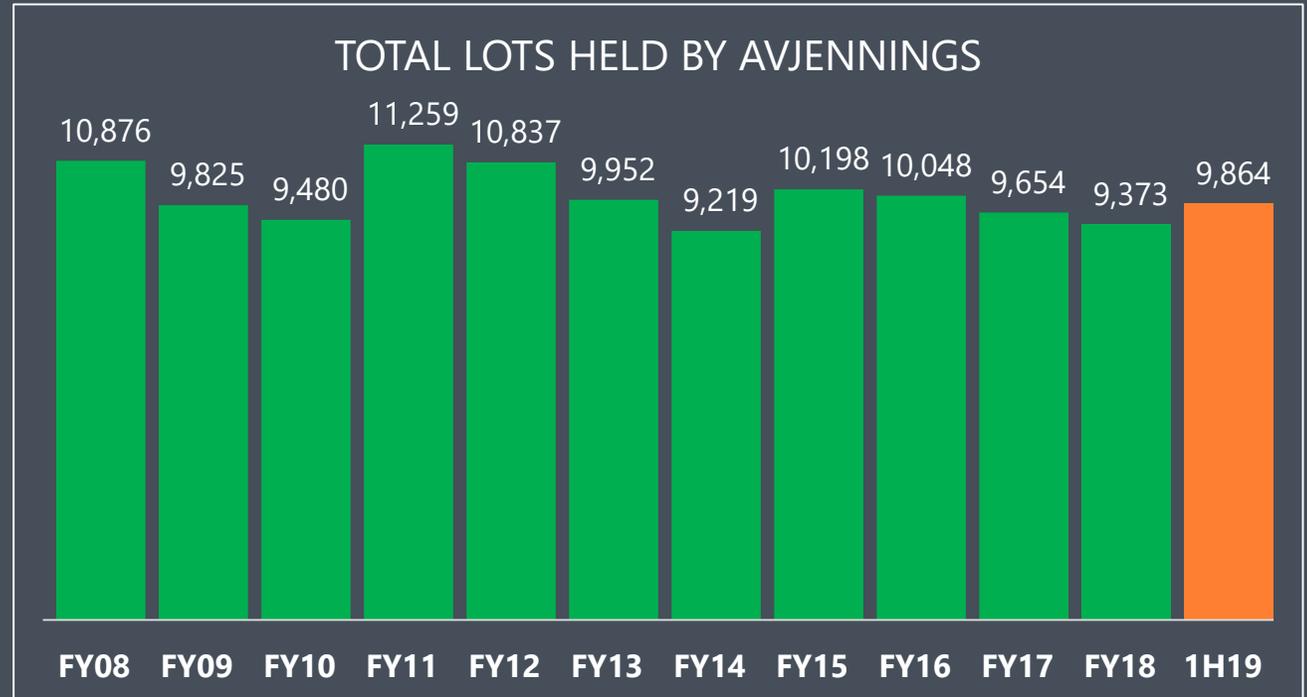


Lots under control stable at ~10k

Notable transactions during 1H19 included:

- ➡ Acquisition of Hall Farm (NZ); ~582 lots; and
- ➡ The significant reduction in completed unsold Queensland dwellings while maintaining a low overall level of unsold stock

Total lots for 1H19 excludes the contracted and conditional future acquisition of land at Mernda near Lyndarum-North of ~230 lots.



Market supply



Source: ABS

Stable and traditional market

AVJ CUSTOMER SEGMENTS

RETAIL CUSTOMER MIX

	1H19	1H18
FIRST HOME BUYERS	33%	46%
LOCAL INVESTORS	23%	22%
TRADE UPS / DOWNSIZERS	44%	31%
FOREIGN INVESTORS	0%	1%

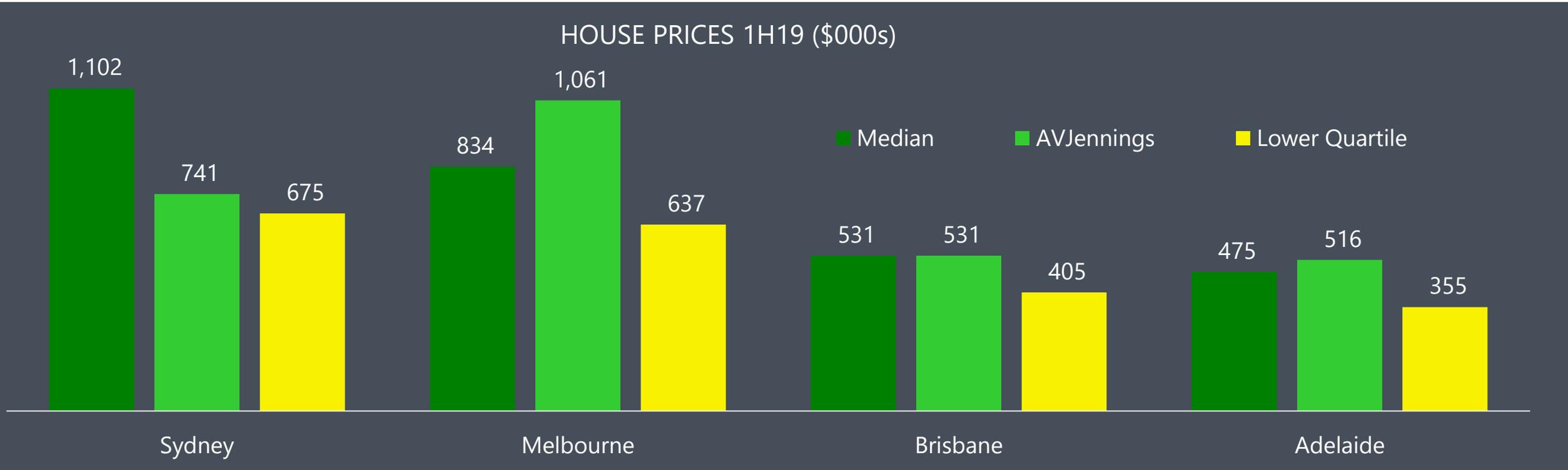


BUSINESS

Our B2B customers are contract home builders and others who buy our land.

This segment remains an important customer sector.

Continuing to provide affordable product



- Capital city figures for the median and lower quartile are for the September 2018 quarter and sourced from BIS Oxford Economics.
- AVJennings figures are based on average selling price for the first half of the 2019 financial year.
- Only town homes at the Waterline project in Williamstown have been sold in Melbourne by AVJennings in that period.
- AVJennings Brisbane data includes sales from projects in the Sunshine Coast.

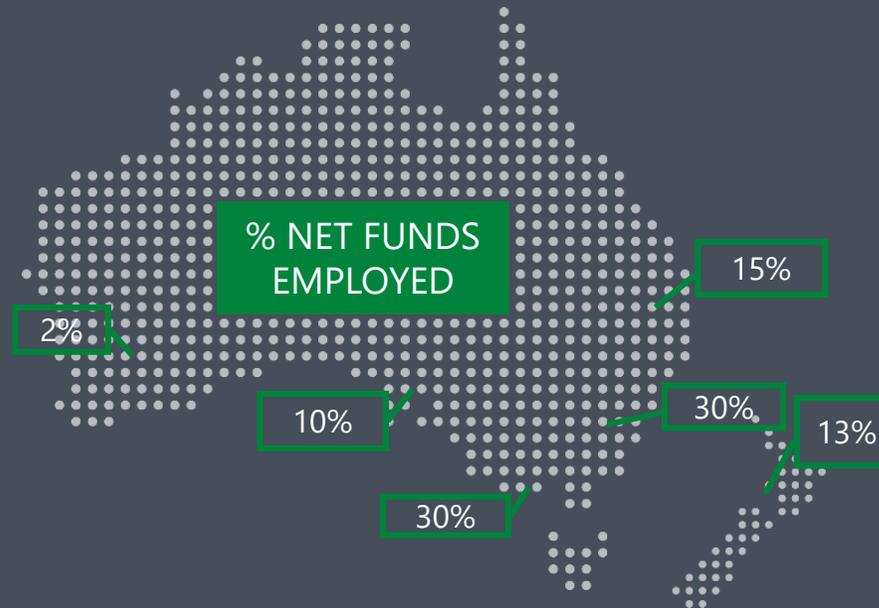
Investment fundamentals

DIVERSIFICATION

- Geographic and product mix provides a less riskier portfolio
- Product mix includes a blend of detached homes, townhouses, medium density apartments and land sales.

SUSTAINABILITY

- Operating since 1932
- No inner city or high rise apartment projects
- Community focused
- Strong balance sheet.



GROWTH

- Economic exposure to urban growth corridors growing at >2x GDP
- ~10K Lot inventory pipeline with new projects driving future growth
- Growth in NFE from \$397m in FY14 to \$582m at Dec '18.

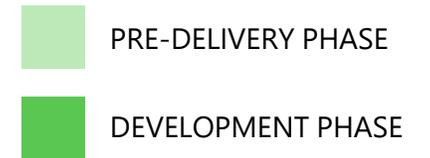
VALUE CREATION

- Regular dividend yields above 8% (fully franked)
- Track record of positive earnings and dividend history since FY13
- Good visibility of 2H19 settlements and revenue.

Appendix

		Remaining # of Lots	Pre	FY19	FY20	FY21	FY22	FY23	Post
New South Wales	Argyle, Elderslie	158							
	Magnolia, Hamlyn Terrace	69							
	Evergreen, Spring Farm (South)	126							
	Evergreen, Spring Farm (East Village)	453							
	Seacrest, Sandy Beach	65							
	Arcadian Hills, Cobbitty Stages 1 - 8	201							
	Arcadian Hills, Cobbitty Stages 9 & 10	46							
	Arcadian Grove, Cobbitty	57							
	Warnervale	595							
	Evergreen, Spring Farm	79							
	Kogarah (apartment project)	67							
	Huntley	231							
	Queensland	Creekwood, Caloundra	77						
Glenrowan, Mackay		177							
Essington Rise, Leichardt		5							
Bethania		91							
Anise, Bridgeman Downs		64							
Kenmore		8							
Enclave, Bridgeman Downs		2							
Riverton, Jimboomba		1,196							
Deebling Springs, Deebling Heights		210							
Arbor, Rochedale		80							
Cadence, Ripley		292							
Buckley B		156							
Ara Hills, Hall Farm		582							
Victoria	Lyndarum, Wollert	95							
	Lyndarum North, Wollert JV	2,150							
	Arlington Rise, Portarlington	3							
	Waterline Place, Williamstown	401							
S.A.	Pathways, Murray Bridge	53							
	River Breeze, Goolwa North	80							
	St Clair	300							
	Eyre at Penfield	1,453							
W.A.	Indigo China Green, Subiaco Fine China Precinct	83							
	Viridian China Green, Subiaco Fine China Precinct	14							
	The Heights Kardinya	92							
	Viveash	10							
	Parkview, Ferndale	31							

Detailed project pipeline by State



Project pipeline as at 31 December 2018