AVJennings

**Investor Briefing Presentation on Half Year Results to 31 December 2018**
**11 February 2019**
**Speaker Notes**

**Peter Summers - Chief Executive Officer**

Good morning all and I welcome you to this AVJennings briefing in relation to our results for 31 December 2018 which were released a short time ago to the market.

Also released was an Investor Briefing document which, as usual, I intend to use as the basis for this telephone briefing.

With me today are Larry Mahaffy, our CFO, and Carl Thompson, our Company Secretary.

As you are all well aware of from extensive media, it has been an interesting time for residential property in Australia. I hope by the end of this briefing you will have an understanding of not only where we see market conditions but also both the challenges and opportunities that exist for AVJennings.

I will start my presentation on slide 6 which looks at a summary in relation to where things stood at 31 December 2018. Larry will go into greater depth in a moment so I will be more high level in my comments.

Firstly, in relation to the results for this year, we always expected a strong bias towards the second half. This took into account 3 aspects:

- firstly, we were moving our business more towards built form in response to an expected slowing in the land sales market, especially for sales of land to builders. Built form has a longer lead time and a period of adjustment was required.
- Secondly, the new accounting standard in relation to revenue recognition meant a greater proportion of our sales would be recognised at settlement.
- Thirdly, and most importantly, a number of significant projects had a second half revenue bias.

Unfortunately, some significant revenues that were expected to be booked in the first half shifted to the second half. The profit impact was around $11m pre-tax. This was announced to the market in December 2018 and consistent with that statement most of these have settled since the end of the half year or are due to settle by the end of February.

There is no doubt the first half results were also impacted by a fast deterioration in market conditions. This was flagged at our AGM in November 2018. We will talk more about this later in the presentation.

On a positive note, we ended the half year to 31 December 2018 with the benefit of good pre-sales, many of which are scheduled for settlement in the second half of FY2019. These will provide an important platform for both second half profit and cashflow.

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In terms of capital management, there is no doubt we need to be flexible and considerate going forward. The slower market conditions do have an impact on sales and sales revenue. But on the flip side, these same market conditions provide some excellent buying opportunities. Of course, we need to also consider issues such as dividend and other capital management issues relevant to shareholders.

All of these are, and will continue to be, considered. But as we have always done they will be considered in terms of what is best for shareholders in the long term.

In the short term, we are reasonably well placed in terms of capital issues. Larry will talk to this as part of his discussion on the 31 December accounts and I will now hand over to Larry to take us through this part of the briefing.

**Larry Mahaffy - Chief Financial Officer**

Turning to slide 7 we see that revenue and statutory profit, both before and after tax, were down on the prior corresponding period. As Peter mentioned a few minutes ago, this is due to a combination of settlement delays at key projects in NSW and Victoria that resulted in the deferral of revenue and margin from the first half of FY19 into the second half, together with softer market conditions.

While earnings per share followed suit, an interim, fully franked dividend of 1.0 cent per share was declared, given the relative strength and visibility of earnings in the second half of FY19. While the interim dividend is lower than that declared for the previous corresponding period, management believes this appropriately reflects heightened market uncertainty and an even heavier than usual emphasis on second half performance. The Company has suspended the Dividend Reinvestment Plan because management does not believe that it is in the best interest of shareholders to issue new stock at this time, although the position will be kept under regular review.

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 $1m.

Slide 8 shows that the balance sheet remains strong, with Net Tangible Assets of 94 cents per share recorded; a reduction of about 5 cents per share since 30 June 2018. This partly reflects adoption of the new revenue accounting standard, which necessitated the 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.

Slides 9 and 10 show that gearing remains well within the Company's target range of 15-35% and continues to follow the traditional pattern of rising with production in the first half, before declining with stronger settlements in the second. The increase in gearing to December 2018 is also a function of the settlement of land creditors, including the exciting new 'Hall Farm' project in New Zealand. Land creditors at the end of December were low at $54.9m. Gearing is anticipated to reduce in the second half through a combination of cash received from settlements deferred over balance date and the settlement of presales scheduled in the second half. Solid WIP at balance date allows flexibility to taper new production commitments in response to market conditions, if required.

Further information is contained within the Appendices.

**Peter Summers - Chief Executive Officer**

We now turn to that part of the briefing which focusses on market conditions. I will start with the summary of issues set out on slide 11.

When we released our full year results for FY2018, we did comment that we expected the market, particularly in Melbourne and Sydney, would most likely slow. Both these markets had experienced high growth rates in both volumes and prices, and moderation was not only expected, it was necessary, for longer term sustainability.

We also flagged the political risk around 3 planned elections in Victoria, New South Wales and Federally. Traditionally markets slow in the lead up to elections.

Finally, there were the early signs of the impacts coming out of the Banking and Finance Royal Commission.

It is fair to say that the extent of all of these was underestimated. The impacts from the Royal Commission have been extensive and the political landscape continued to deteriorate, including seeing another change in Prime Minister.

By far the biggest impact has been on confidence in relation to property. And this has been supported, if that is the right word, by a constant barrage of media, examples of which are shown on slide 12. Much of this media reflects extreme examples or views.

However, as set out on slide 13, it remains a fact that market fundamentals remain sound and, in some areas, strong. Australia continues to have a strong economy. In analysing where things are at it is important to have this perspective. In the past we have had poor market conditions based on high or rising interest rates, we have had poor employment prospects in areas where our customers work.

Market cycles are part of the property landscape. They need to be planned for, they need to be managed. But they also need to be understood.

Some corrections were required, some are still required and the most obvious remains government policies. But the gap that has opened up the most is consumer confidence in residential property.

In the short term it is unlikely this will change significantly. However, as the media frenzy moderates, as it always does; as elections come and go and some sense of the political future emerges; as the necessary pricing adjustments occur; we believe those strong fundamentals will see a return to positive market conditions.

In the meantime there is plenty for us to focus on, especially in the short term. The key areas are set out on slide 14.

We need to ensure those projects due for completion in the second half are delivered on time and pre-sales recognised as revenue.

We need to continue to monitor inventory levels to ensure they are reflective of current and short term forecast levels. At its most basic this means ensuring completed, unsold stock levels are under control. But it also means leveraging the advantage we have from being a predominantly horizontal development business. This allows us some control over managing stage sizing and timing.

We need to continue to review our operational efficiency across the business. To some extent slower market conditions allow more scope to do this. In the latter part of 2018 we created the position of COO to specifically address operations and appointed an experienced hand in Mr Stenio Orlandi. Part of improving operational efficiency has been greater centralisation.

We will continue to capture more profit from our projects through increased built form. This includes the scheduled completion in the second half of FY19 of our first dwellings built by AVJennings in New Zealand.

We will continue to focus on overall capital management with a view to long term shareholder value, including assessing opportunities for acquisitions which represent good long term value in areas supported by strong fundamentals.

So whilst we cannot control market conditions we certainly have plenty we can do.

There are a number of other slides in the briefing document under the Appendices section. I don’t intend to talk to these specifically but as I will now throw open this briefing to questions I am happy to address any questions in relation to these appendices as part of that.

Thank you for your interest and time in attending this briefing.

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