AVJennings

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AVJennings Announces FY20 Results

Results in brief *(all growth rates are YoY unless specified)*

- **Revenue $262.4 million, down 11.5%**
  - **Growth in land and housing revenue +4.9% to $246.4M; Apartment revenue -76.8% to $13.2M**
- **Profit Before Tax (PBT) of $13.2 million, down 44.8%**
- **Strong balance sheet maintained with the Company ready to scale operations in response to improving conditions**

Australian and New Zealand residential community developer AVJennings (ASX:AVJ, The Company) is pleased to provide financial results for the year ended 30 June 2020 (FY20).

Financials and Operations

The Company recorded PBT of $13.2M down 44.8% (30 June 2019: $23.8M), and Profit After Tax of $9.0M (30 June 2019: $16.4M).

FY20 presented unforeseen challenges including drought, bushfires and a global pandemic. Although our original expectations for FY20 didn't materialise, the results achieved are good in the circumstances and due in part to improvements in operations and efficiency.

As we entered FY20, we were confident of a recovery in the Australian market, particularly in Victoria and New South Wales. This was slower to materialise than hoped, with early signs of recovery in late calendar year 2019 subdued by the bushfires which impacted consumer confidence and attendances at sales offices as people stayed indoors due to poor air quality.

The early months of 2020 did see growing momentum and results started to strengthen just as the first stage of the pandemic hit, draining the last three and a half months of FY20 of their anticipated strong finish.

On a positive note, revenue from land and housing still ended up 4.9% above FY19 levels, on the back of revenue recognition from superlot pre-sales at our Hobsonville, Auckland, project and forecast improvements in our Queensland business that resulted from actions taken in FY19, including the acquisition of the balance 50% interest in the 'Riverton' JV at Jimboomba, following which the project was relaunched with good outcomes.

Apartments revenue was down 76.8% to $13.2m but this reflected project timing as the previous financial year included the completion of the GEM apartments. The next apartment building, Empress, is currently under construction with pre-sales performing adequately. Revenue and profit recognition are scheduled for the latter part of FY21.

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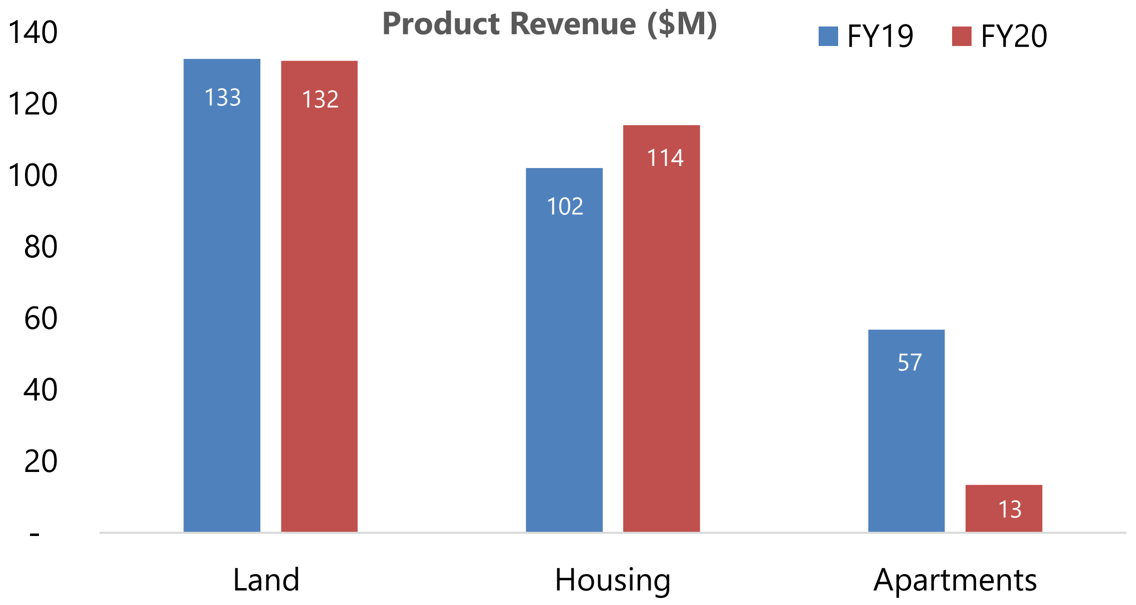

Overall, total revenue of $262.4M was down 11.5% following lower settlement volumes (down 14.7% to 827 lots).

On the back of reduced margins in New South Wales, average margins decreased by 1.7 percentage points to 22.8%.

There continued to be a strong focus on overheads, and the pre-tax result includes an amount of $1.6M in relation to JobKeeper for the April to June period. The Senior Executive Team and the Board took significant reductions in entitlements. In addition, all staff other than sales and site staff accepted accelerated leave arrangements to reduce labour expenses, which extend into FY21.

Whilst our commitment to rational and conservative land acquisitions has seen the value of most acquisitions protected from write-downs, the FY20 result does include an increase in inventory loss provisions of $1.6M (FY19: nil) relating to regional projects in Queensland and South Australia.

Capital Management

Controlled land inventory at 30 June 2020 was 12,134 lots (30 June 2019: 13,031 lots). This includes land at Caboolture, Queensland (approximately 3,500 lot equivalents) over which the Company holds options that are subject to the achievement of certain planning milestones.

As a response to pandemic-induced uncertainty, the Company sharply wound back physical production in early March to conserve cash, although production continued for those projects necessary to facilitate settlements of existing presales. This capability demonstrates the strength and flexibility of the Company's focus on horizontal development.

Work in progress was down year-on-year to 1,117 lots (30 June 2019: 1,600 lots), however, planning and design work continued largely unabated, leaving the Company well placed to resume physical works in key locations as Government stimulus measures were introduced and buyer confidence began to return.

Net debt remained comparable with the prior year at $184.4M (30 June 2019: $182.1M) and gearing remained moderate with net debt to total assets of 28.1% (30 June 2019: 26.6%).

Net cash from operations turned around strongly year-on-year to positive $10.0M (30 June 2019: net outflow ($45.8M)), assisted by solid settlements and reduced expenditure on production, acquisitions and overheads.

Given the FY20 earnings results and the current environment the Directors believed it prudent not to declare a final dividend for FY20.

Outlook

AVJennings remains in a sound financial position, with moderate gearing and adequate undrawn banking facilities. Our flexible, horizontal delivery bias allowed us to respond quickly to the pandemic, and then change gears as early signs of a recovery emerged. Additionally, our focus on traditional customer segments and a conservative and responsible approach to acquisitions are important aspects of our ability to cope with the ongoing challenges presented by COVID-19.

Enquiry levels and contract signings strengthened in the period leading up to 30 June, as Government support and stimulus measures, such as HomeBuilder and State Government Stamp Duty and other measures were announced, with net contract signings in March, April, May and June of 57, 51, 86 and 97 respectively. With many parts of Australia now seeing eased restrictions, the improved enquiry level has continued, although the reintroduction of tighter controls in Victoria has slowed that State's recovery and shows that the short term remains uncertain and volatile.

Critical to the short term are support mechanisms provided by various levels of Australian Government, including the national HomeBuilder scheme. Apart from influencing buyers not to delay their purchasing decisions, they also act as a strong incentive for first home buyers who have found entering the market difficult in recent years.

There is short term uncertainty and volatility, but we are encouraged by recent contract signings and schemes such as HomeBuilder. A total of 385 contracts were carried over at 30 June 2020, with a further 76 contracts signed in July 2020.

We have taken steps to advance project planning and approvals to be well placed to respond to improving conditions. Two important components of the FY21 result will be the first profit recognition from existing pre-sales and new sales from Ara Hills, New Zealand, and the Empress Apartments, Waterline Place, Victoria. The timing of our results will remain very heavily weighted towards the second half and may be affected by any extensions to, or reintroduction of lockdown conditions, especially if they slow project delivery.

The Company believes that the longer-term outlook remains bright. As employment levels rise as the economy gradually recovers from the shock of the pandemic, the fundamentals that drove the early stages of the anticipated FY20 recovery, which may have been temporarily stalled, remain generally intact.

Net migration is a key driver of underlying housing demand and whilst this will be a challenge in the short term, the Company anticipates it is likely to recover strongly when international borders reopen, as Australia and New Zealand are relatively less affected by the virus than comparable jurisdictions. Additionally, the significant trend towards high density, inner city living over the last 5 years (which was starting to abate before the pandemic) is unlikely to continue. Renewed focus on community, safety and increased flexibility in working arrangements is likely to see stronger support for traditional housing, which AVJennings is well placed to deliver.

Comments from Peter Summers, CEO

"The Australian bushfires and the COVID-19 pandemic have not only provided significant challenges to business, they have impacted directly on so many lives and to all those who have been impacted, especially to those who have lost loved ones, we express our sympathies. In relation to COVID-19, our priority has always been to ensure the safety of our customers, staff, suppliers and sub-contractors and to offer support where possible.

Until March 2020 we were encouraged with the momentum and performance of the business. Whilst the impact of the bushfires impacted on the pace of the recovery, we were delivering good progress across our larger developments and the Queensland business had turned around.

Since then, 2020 has been incredibly challenging due to COVID-19. I am proud of the response from AVJennings. The immediate actions we took have preserved the strength of our balance sheet and we are ready to ramp up our operations in response to the recovery in the economy.

Whilst the short term does remain challenging and uncertain, it is fair to say the residential market performed better than we expected during the March to June period and we have seen large parts of the Australian economy beginning to open up well ahead of early predictions. Supported by initiatives such as HomeBuilder and other State schemes, we have seen a continuation of sales into the new financial year.

One positive from the pandemic has been a new level of cooperation between industry and governments. Hopefully this continues into the future and allows for proper and much needed reform."

ENDS.

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