ASX Announcement

18 August 2021

Strong operational execution and underlying resilience in retail activity in FY21; COVID-19 impacts and headwinds remain

Result headlines

- FY21 was impacted by the COVID-19 pandemic however signs of stabilisation were observed in 2H FY21
  - Funds from operations (FFO)[1] of $558.8m or 12.28cps (FY20: $520.3m or 13.66cps)
  - Distribution of 10.0cps, reflecting a payout ratio of 93.7% of Adjusted FFO (AFFO) (FY20: 7.7cps, payout ratio 69.3%)
  - Statutory net loss after tax of $258.0m (FY20: statutory net loss after tax of $1,801.0m)
- Strong balance sheet maintained, with low gearing of 23.8% and liquidity of $2.4b
- Positive momentum and underlying resilience in visitation and retail sales in 2H FY21 as COVID-19 restrictions eased
- Improved cash collections over FY21 with 84% of gross rental billings collected, 93% net of waivers (1H FY21: 72% and 90% respectively)
- Delivered on strategy to preserve occupancy, at 98.2% with strong leasing activity in 2H FY21
- CBDs heavily impacted by COVID-19; favourable long-term fundamentals remain
- Town planning approvals received for 12 projects; two additional mixed-use town planning applications lodged
- FY22 guidance not provided due to heightened COVID-related uncertainty following outbreak of Delta variant, notably in NSW from 4Q FY21

Financial performance

Vicinity Centres (Vicinity, ASX:VCX) today announced its results for the 12 months ended 30 June 2021 (FY21), with a statutory net loss after tax of $258.0 million. This comprised primarily of FFO of $558.8 million and a non-cash net property valuation loss of $642.7 million[2].

While Vicinity continues to be impacted by the COVID-19 pandemic, FFO was 7.4% higher than FY20, largely reflecting strong Net Property Income (NPI) growth, up 8.7% to $743.4 million.

A final distribution per security of 6.6 cents was declared for 2H FY21, comprising 4.1 cents attributable to Vicinity's normal earnings in 2H FY21 and 2.5 cents attributable to several one-off items recognised over the year. These included the reversal of waivers and provisions recognised in FY20, lower net interest costs

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1 A reconciliation of FFO to statutory net profit is in Note 1(b) of the Financial Report for the year ended 30 June 2021 released to ASX today. FFO is a non-IFRS measure.

2 Excludes statutory accounting adjustments.

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following the swap restructure in FY20, elevated surrender fees and temporarily reduced corporate overheads.

In total, Vicinity distributed 10.0 cents per security in FY21, representing 93.7% of Adjusted FFO; slightly below the target range of 95%-100%[3] due to higher than anticipated NPI in June 2021.

Mr Grant Kelley, CEO and Managing Director, said: "FY21 was an extraordinary year for Vicinity, our industry and the retail sector more broadly.

"The pandemic has had a significantly adverse impact on our business, however we are seeing some positive momentum in our financial results[4] especially in regard to asset valuations, which seem to be progressing towards stabilisation.

"Since the onset of the pandemic in March 2020, Vicinity has allocated more than $230 million in the form of financial support to retail tenants, around 90% of which, was via outright rental forgiveness. This is in addition to the significant investment made to implement a wide range of COVIDSafe measures across our centres nationwide.

"While our financial results reflect the magnitude of COVID-19 impacts and retailer support in FY21, our balance sheet highlights our disciplined approach to managing capital during a period of heightened uncertainty and risk and creates opportunities for the future.

"We concluded FY21 with gearing of 23.8% and maintained our investment grade credit ratings of A/stable (S&P) and A2/stable (Moody's). We have available liquidity of $2.4 billion, with zero debt expiring until FY23. Our weighted average debt maturity is 4.4 years across all of our facilities and 5.8 years based on drawn debt. Consequently, we enter FY22 with the capacity to withstand further COVID-related disruptions, and the flexibility to pursue value accretive opportunities."

Portfolio performance

On Vicinity's portfolio performance, Mr Kelley said, "Despite significant and often prolonged disruptions, consumer and retailer activity during the year demonstrated underlying resilience. In all states, when COVID-19 restrictions eased, consumers were quick to return to retail malls with confidence and the capacity to spend.

Similarly, in states that have been largely COVID-free such as Western Australia, South Australia, Tasmania and Queensland, visitation has remained near to pre-COVID levels, while sales growth has been strong, benefiting from consumers shopping locally.

On Vicinity's portfolio performance, Mr Kelley commented, "Operationally, the team's execution has been outstanding, especially given the disruptions and challenges faced by the retail sector. We delivered on our strategy of driving robust occupancy in FY21, with occupancy of 98.2%, 20 basis points higher than our 1H FY21 result. We negotiated 1,257 leases (FY20: 824), and more than three quarters of all new leases were negotiated on our standard terms with fixed 5% annual growth rates."

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3 Stated in Vicinity's ASX release lodged on 21 June 2021, titled '*Proposed final distribution and preliminary 30 June 2021 valuation outcomes*'

4 Vicinity's statutory results showed improvement throughout the year with a net loss of $394.1 million in 1H FY21 and a net profit of $136.1 million in 2H FY21

Cash collections improved in 2H FY21. Overall, 84% of gross rental billings were collected in FY21 and net of waivers, Vicinity collected 93% of billings.

Sustainability performance
Sustainability is fundamental to the long-term performance of our business. During FY21, Vicinity progressed all three of its Sustainability pillars; Community Significance, Low Carbon Smart Assets and Climate Resilience.

Key highlights included:

- Becoming a formal supporter of the Task Force on Climate-related Financial Disclosure (TCFD).
- Publishing the inaugural Modern Slavery Statement in March 2021 and enhancing the approach to identifying and addressing Modern Slavery issues within the supply chain.
- Outperforming in a number of investor sustainability surveys, including being recognised in the top 3% of real estate companies globally within the Dow Jones Sustainability Index, ranking third in the Australian Retail Shopping Centre category in the Global Real Estate Sustainability Benchmark, and being recognised on CDP's[5] prestigious Climate A-List for the second consecutive year (one of only three Australian companies).
- Addition of four projects to our industry-leading solar program.

Vicinity's strategy refinement
Many of the structural shifts occurring in Australia's retail industry prior to the onset of COVID-19 accelerated during the pandemic. The rise of online shopping, retailer demands for premium assets and locations which facilitate omni-channel retailing, heightened regulatory risk and the need to invest in data, digital and technology solutions to stay ahead of the innovation curve, are all trends that continue, but most customers maintain a strong preference for shopping in person.

While Vicinity's vision of reimagining destinations of the future and creating places where people want to connect remains unchanged, the overarching strategy of how Vicinity will deliver this has expanded.

Vicinity will continue to optimise and grow its core retail portfolio to deliver enhanced performance with our well-developed retailer, consumer and operations strategies. As part of our portfolio investment strategy, we will continue to invest in and develop our Premium and DFO segments.

However, to create destinations of the future, Vicinity must transition to a forward-thinking real estate business where all of Vicinity's assets and capabilities, derived from its core retail portfolio, are leveraged more effectively to deliver new income streams and greater value for securityholders.

These assets and capabilities include:

- Network of 59 retail centres with over 1.5 million square metres of identified new developable area
- Over 340 million visits to our centres in FY21
- Growing customer database of one million members
- Partnerships with 7,000 retailers
- Leading data and digital capabilities
- 23 strategic partners representing approximately $9 billion in external assets under management

5 Formerly Carbon Disclosure Project

By leveraging these assets and capabilities more effectively, Vicinity expects to grow core retail property rental income and create new revenue streams in the following three areas:

1. Adjacent products and services utilising core assets and capabilities to create new products and services
2. Mixed-use developments bringing new users to our retail assets and new forms of rental income
3. Third-party capital creating strategic partnerships with aligned capital partners and a funds management business to drive fee income.

While Vicinity is already seeing solid performance from adjacencies such as solar, media and car parking, the opportunity exists to pursue more products and services in the areas of logistics, data, automation, artificial intelligence and energy.

As part of our focus on insights and innovation, Vicinity has today, announced an investment with Taronga Ventures, a leading technology and innovation investor in Asia. This will provide Vicinity access to new and innovative technologies and will complement our growing, in-house new product development program that is so far delivering new data, insights and technologies, a large solar energy program and centre-based distribution solutions.

Vicinity's mixed-use development agenda is well established and will continue to be a key lever for growth. In FY21, town planning approvals were received for 12 projects and two additional mixed-use town planning applications were lodged

Similarly, Vicinity's existing funds management platform, that includes 23 strategic partners, provides us with a solid foundation to substantially grow our third-party capital and assets under management.

On Vicinity's strategy refinement, Mr Kelley summarised, "Our expanded strategy will see us stabilise and grow the engine of our business, namely retail property ownership and management, whilst pursuing the transformational opportunities that arise from our existing asset base and organisational capabilities".

Summary and future perspectives

In summary, Mr Kelley said, "FY21 was a challenging year for Vicinity, but it was also a year of significant progress for our organisation. Operational execution was outstanding, and our disciplined financial and capital management enables us to enter FY22 with a strong balance sheet, with capacity to withstand further COVID-19 disruptions whilst supporting our refined growth agenda".

Due to heightened uncertainty surrounding the recent outbreak of the Delta variant of COVID-19, notably in New South Wales, Vicinity is not in a position to provide earnings guidance for FY22. Vicinity will closely monitor prevailing conditions and will update the market if and when appropriate.

In the absence of FFO guidance, Vicinity provides the following future perspectives:

- FY21 FFO benefitted from several one-off items, including:
    - Reversal of FY20 provisions and waivers
    - Elevated surrender payments
    - Temporarily reduced operating costs
    - Reduced interest costs driven by the swap restructure in FY20
- Rebound in consumer visitation and spending following periods of lockdown and the prospect of a sustained reopening of the Australian economy from 2H FY22, underpins cautiously optimistic outlook

- Vicinity will continue to support retailers in categories and locations most affected by the pandemic
- Vicinity plans to accelerate investment in organisational talent to drive future growth; net corporate overheads likely to be higher in FY22; and
- Vicinity expects to resume business-as-usual capital spend, supplemented by some catch-up investment following two consecutive years of capital preservation; maintenance capital expenditure expected to be higher than pre-COVID levels in FY22.

In conclusion, Mr Kelley said, "I would like to thank the Board, my Executive Committee and all the team members at Vicinity for their tremendous commitment and resilience during an extraordinary year. I would also like to thank our retailers and customers for their support and partnership as we worked through the challenges of the pandemic."

Additional detail on Vicinity's FY21 results can be found in the investor presentation released to the ASX today. A briefing by management elaborating on this announcement will be webcast from 11.00am (AEST) today and can be accessed via vicinity.com.au.

Authorisation
The Board has authorised that this document be given to ASX.

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About Vicinity Centres
Vicinity Centres (Vicinity or the Group) is one of Australia's leading retail property groups with a fully integrated asset management platform, and $22 billion in retail assets under management across 61 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 59 shopping centres (including the DFO Brisbane business) and manages 30 assets on behalf of Strategic Partners, 28 of which are co-owned by the Group. Vicinity is listed on the Australian Securities Exchange (ASX) under the code 'VCX' and has over 28,000 securityholders. Vicinity also has European medium term notes listed on the ASX under the code 'VCD'. For more information visit vicinity.com.au or use your smartphone to scan this QR code.