AVJennings

AVJennings Limited

Results Briefing Presentation Speaker Notes
(to be read in conjunction with the First Half FY22 Financial Results Presentation released to the market on Thursday, 17 February 2022)

Presented by: Mr Philip Kearns, AM, CEO & MD and Mr Larry Mahaffy, CFO
Facilitated by: Mr Andrew Keys, Principal Keys Thomas Associates

STARTS

Hello and welcome to the AVJennings first half results webinar for fiscal year 2022.

I am Andrew Keys and I am facilitating today's event.

Following the presentation from AVJennings CEO Philip Kearns and CFO Larry Mahaffy there will be a Q&A session. Please use the Q&A function in zoom to ask questions of Phil and Larry.

Good afternoon Phil – handing over to you.

Thanks Andrew.

On behalf of AVJennings I'd like to acknowledge the Traditional Custodians of the various lands on which we work today and Aboriginal and Torres Strait Islander people, and Maori people participating.

We pay our respects to Elders past, present and emerging, and recognise and celebrate the diversity of these peoples and their ongoing cultures and connections to the lands and waters across Australia and NZ.

As we head into the second half of Financial Year 2022 there is excitement in the air as Australia edges towards 'normalcy', whatever that means. Much has changed in our lives over the past two years of the pandemic but there is expectancy about what lies ahead. Our hope at AVJ is that all those that live in our communities can continue to take advantage of the quality that we aim to provide.

Our work and family life changed as we struggled through the trials of the COVID-19 pandemic but what has never changed has been our customers desire to have a nice community and home to live in and our desire to provide it. It is our 90th anniversary and that desire to build communities will be here beyond our 100th year and will always be in our DNA.

AVJennings has used the pandemic as an opportunity. We have learnt from our customers and potential customers those new small things that they want from their experience with us. Parcel letterboxes, space for a home gym, home office facilities to name a few are what the houses of now and the future require to be livable. It was the same in the 1930's when AVJennings was able to provide for the needs and wants of the families of that time.

And now more than ever our customers, shareholders and other stakeholders demand a commitment to ESG requirements and I can say that AVJ is steadfast in the path it is taking to be a leader in that field.

In my new role as CEO of AVJennings I have seen up close the quality that we produce in both the estates that we create and the homes that we design and build. I have visited a number of our sites across greater Sydney, Wollongong, Melbourne and Brisbane and I have learned to be able to spot an AVJennings house due to the quality of the build and the attention to detail applied by our people. They genuinely love what they do and take pride in doing it.

Whilst the last 12 months has had its challenges, the AVJennings team continued to pursue customer service excellence, design excellence and post-sales excellence. This too is in our DNA. Our financial result for the 1H of 2022 is strong and is a testament to the previous CEO and the quality of the team that delivered it. I can take little or no credit for the number as January 10 was my start date. What I can do after one month in the job is to thank Peter Summers for his 37 years with the company and his unwavering commitment to AVJennings over that period.

This half year shows profit before tax up 11.6% to $10.6 million and gross margins improving to 28.7% leading to EPS rising to 2.0 cents up 47.1%. Our 2nd half looks promising as contract signings are strong and our production pipeline is in good shape and will improve further if the current poor weather turns fine. With the good first half our balance sheet gets even better which means we have funding capacity to expand housing construction and for further acquisitions, which will be a major focus. Despite the size of our country, access to good, easily zoned land is difficult and it requires a team focused on key areas, alert to opportunistic deals and able to build meaningful relationships with key people in our target areas. AVJennings is one of the most trusted brands in the country and we plan to keep it that way.

Larry, I will hand over to you to take us through the financial results.

Thank you Phil.

Slide 9 summarises the Company's financial performance over the half, which was positively affected by rising activity and sustained high demand. Net Profit Before Tax of $10.6M was up 11.6% on the previous corresponding period, while Profit After Tax of $8.1M was 47.2% higher due to a lower effective tax rate arising from the impact of tax effect accounting of profit earned from an equity accounted joint venture and the reversal of some share based payments. The result is after an accrual for amounts payable to the previous Chief Executive Officer, approved by shareholders, absent which Underlying Profit Before Tax would have exceeded $13M. Average gross margin rose to 28.7%, up 4.4 percentage points, on the back of good margins from various Cobbitty and Spring Farm communities in Sydney, 'Lyndarum North' in Wollert Melbourne, 'Cadence' in Ripley Brisbane, 'Ara Hills' in Auckland New

Zealand, and ‘Eyre’ in Penfield Adelaide. Net Tangible Assets Per Share increased slightly to $1 per share, while Earnings Per Share rose to 2.0 cents per share, up from 1.36 cents in the prior corresponding period. Pleasingly, the strong first half result and positive second half outlook led directors to declare that a fully franked cash dividend of 1.1 cents per share be paid, an increase of 57.1% on the prior corresponding period.

Slide 10 graphically depicts the growth in Underlying Profit Before Tax, Earnings Per Share and Dividend just mentioned.

Slide 11 illustrates a number of leading indicators for the business. Contract signings rose 21.0% to 502 lots during the half, while 586 presold lots were carried over first half balance date, 452 of which (having a contract value of $151M) are expected to settle or be revenue-recognised in the second half of the current financial year. A further 46 lots were contract signed during January, collectively supporting second half performance.

Slide 12 explains that despite a modest fall in settlements during the half to 340 lots, average contract value was higher and revenue rose by 2% to $116.9M. This was due to the preponderance of built form settlements (integrated housing and apartments) over land, that accounted for approximately 53.5% of total revenue, and a change in built form mix from the prior corresponding half, which saw a more significant contribution from apartments. The bulk of dwellings in the ‘Empress’ building at ‘Waterline Place’ in Williamstown Melbourne settled during the half, together with some legacy apartments in the ‘Indigo’ and ‘Viridian’ buildings in Subiaco Perth. While revenue from integrated housing fell to $46.1M, this reflects timing differences in completion that affected settlements only, as the number of detached houses and townhouses under construction was stable at 189 dwellings, with 68 dwellings started during the half.

Slide 13 illustrates revenue by region, with the positive movements in Victoria and Western Australia reflecting the contribution from apartment settlements just mentioned.

The summary balance sheet depicted on Slide 14 indicates that balance sheet footings remain very sound. Pleasingly, the Company’s core debt facility was recently approved for increase to $300M from $250M and its rolling termination date extended to September 2024.

The Summary Cash Flow Statement on Slide 15 shows that Net Cash from Operations for the six months rose strongly to $31.2M, funding a substantial reduction in borrowings.

Slide 16 illustrates the change in gearing over time, with the Company’s Net Debt to Total Assets ratio falling to a cyclical low of 15.5%, leaving the Company well placed to expand activity in the second half of fiscal 2022 and beyond.

Slide 17 shows that Total Inventory (including controlled land under option) stands at 12,117 lots. This includes 663 lot equivalents acquired by the Company in the south-east of Melbourne at Clyde South. We are hopeful that several other acquisitions in Brisbane and Melbourne amounting to more than 600 lot equivalents will be finalised in the second half of fiscal 2022.

Work in Progress continues its upward march in Slide 18, reaching 1,748 lots, well up on the prior two balance dates as the Company worked to recover ground lost in the earliest phase of the pandemic. We expect to complete around 715 of these lots in the second half of fiscal 2022, comprising land-only lots, integrated houses and apartments. This increase in work-in-progress is expected to result in more completions and settlements during the second half of the current financial year.

I'll now hand back to Phil.

Thanks Larry.

Macroeconomic trends look good despite what some perceive as the threat of rising interest rates. Consumer confidence rises and falls with the pandemic which is hopefully nearing its end. Unemployment is at all-time lows in the 4.0% range whilst migration will return soon with the ABS stating that it will increase to 240,000 by 2024/5.

Australia's interest rates are destined to rise, however we think that the rate of increase will be shallower than the more extreme predictions currently reported. Additionally, the increasing household savings ratio sees more customers with money in the bank able to buffer interest rate increases. In New Zealand, government controls are trying to quell the rising price of homes in our key areas of business but our partners and staff on the ground tell us that whilst demand may ease off it will not go away. I am eager to see what more we can do over there.

AVJennings is a residential developer, we have a good geographic spread across Australia and New Zealand and we are a major player in the key growth markets of those States. We develop and build communities where our growing populations of everyday Australians and New Zealanders want to be. Evolving environmental and social considerations come into play with every site we do and that will always be in the forefront of our minds. Recreation, biodiversity, energy and water management and cultural heritage matters are regular features of our landscape. The business we are in will not change but the way we do it will as we look to a more efficient way of doing business and we answer the demands of our customers.

We face some key issues to accelerate our growth including access to capital for large acquisitions and increased building activity, business process improvement and speed of decision making. I am incredibly grateful to be handed the opportunity to drive this company into its next phase of growth with a team committed to being true to the company's values and building communities. After 5 weeks in the CEO's seat, I know we can be a youthful and dynamic 90 year old. We are moving with the times and with a bit of stretching we can remain nimble responding to community needs.

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