AVJennings

AVJennings Limited: Results Briefing Presentation Speaker Notes
(to be read in conjunction with the full year FY22 Financial Results Presentation released to the market on Thursday, 18 August 2022)

Presented by: Mr Philip Kearns, AM. CEO & MD

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.

At the briefing in February, I talked about heading towards normalcy and how much we looked forward to that. Well, that didn't turn out to be right! Extraordinary rain events, the continuation of different forms of covid, war, supply chain issues, inflation and interest rate rises have all lead to difficult trading conditions for all industries across Australia and the world. The residential development market is no different and has forced some challenges for us all.

In difficult times it is often best to 'stick to your knitting' and that's what we plan to do at AVJennings as we continue to develop and sell affordable master planned communities in sought after locations and buying land or obtaining controlling interests in it. We continue to not engage into high rise, nor do we do contract building for others.

At all stages in our developments, we consider what is right for our communities and what is right for our environment as we engage with issues such as energy, water, biodiversity, climate and waste. All these factors play a role in the master planning and house designs that we put into our communities. We are in fact raising the bar in this area and we have commissioned a new role, Head of the Future and Sustainability, as we look out to what our customers, communities and partners want to see from AVJennings over the next 20-30 years.

First Home buyers and subsequent home buyers still make up over 50% of what we do, however investors are playing an increasing role in the market as are all levels of government with demand for social infrastructure. We have worked with various governments on a number of developments over recent years.

Over the next few years, we plan to extract greater productivity and efficiency with our current resources. We are looking to make more capital efficient transactions as the market evolves through this interest rate cycle and this includes acquisitions in regional areas as we explore the move from the Y generation to regional areas as our work lives evolve and the work from home model becomes entrenched in our culture. With this in mind, we are looking to increase the volume and proportion of built form product we put on our land and into our communities. Our focus is fairly and squarely on Return on Equity and Earnings per Share.

We continue to ensure that our portfolio is diverse as it helps to mitigate market risk and we now have over 12,700 lots under our control across all major states and in New Zealand which is another area we see growth.

As I mentioned earlier, it has been a strange year which has ensured a disrupted financial result due to the delayed timing of settlements. The abnormal wet weather along the east coast of Australia and New Zealand had a major impact in delaying settlements with some sites suffering over 100 working days in wet weather stoppages. Global issues such as supply chain challenges leading to material shortages added to labour shortages and Covid 19 have affected the whole industry and we have not been exempted from these.

Our 2023 financial year is underwritten by 683 contracts on hand with the vast majority to settle through the year. Our growth strategy is in place which includes more built product, our financial position is strong as our levels of unsold stock are at record lows and most importantly, we feel our industry fundamentals support a strong story for the residential development sector with migration set to increase and a housing shortage nationally.

While the result was lower due to the reasons stated previously, there are some shining lights. Whilst our profit before tax was down over 30% to $17.9m it was at the upper end of our range and our gross margins were 28.8%, up from 22% the previous year. This is something we have worked hard on and will continue to do into FY23.

A final dividend of 0.67 cents per share was declared, for FY22, bringing total dividends for the year to 1.77 cents per share, representing a fully franked yield of 5.5%.

Our customer enquiry numbers have been strong and that is reflected in our contract signings for financial year 2022 at 853. The dollar value of our presales going into FY23 is $230m, up 105% on the previous year which is a confidence boosting indicator for earnings. In addition to the 683 contracts on hand I previously mentioned, we have signed contracts for another 34 in July.

Revenue recognition this year has been impacted by apartments playing a smaller part in our mix of products, which reflects the Empress apartment settlements made at Waterline Place, Victoria in financial year 2021. 2024 will be when we hope to see further apartment settlements as the final stage of Waterline Place is scheduled to be completed.

Australia wasn't the only jurisdiction troubled by weather, supply chain challenges and COVID-19. New Zealand revenue was also affected and, Ara Hills, our majestic project suffered big delays of 85 working days which will see its 2022 revenue leak into 2023.

Despite this, our financial position is strong with our Club facility increased by our banks to $300m whilst our borrowings were reduced to $109 million. Our total assets increased to $729m.

Despite the dip in settlements and revenue, cash flow from operations remained healthy with $33.1 million generated.

Given where interest rates have moved and there is potential for market slowdown, our capital management settings have been prudent and leave us with the ability to achieve our growth ambitions. Net debt is down to $106 million and gearing reduced to 14.5%, which is slightly under our target range floor of 15%. Again, this leaves us with the ability to fund our strategy of growth and increased built form.

Our number of lots at the close of the year stood at 12,733, with our business development team securing acquisitions in Clyde in Victoria and Ripley in Queensland adding to our cachet. Clyde, in the southeast of Melbourne, is a strong growth area and further diversifies our book into an area we haven't ventured into for a while but has a dynamic story. The 333 lots acquired in Ripley, Brisbane are close to an area we know from our Cadence project, and we feel the fundamentals in that area remain strong as it is a much sought-after location.

Our lots under development reached 1,888, which was also up on the previous two years as the market strengthened over financial year 2022. It required a quick response as most in the industry thought demand would decline with COVID-19, but it went the other way. We were nimble and increased production, of which 1,036 are scheduled to complete in financial year 2023.

The feeling of community is deeply entrenched in the AVJennings psyche. We support sporting and lifestyle groups across our sites and shareholders will know our longevity in supporting the Steve Waugh foundation and since our involvement with Steve we have raised over $1.2m for his foundation. We supported the Humpty Dumpty Foundation including buying two pieces of equipment for Childrens Hospitals including for The Northern Hospital in Victoria and the Ipswich Hospital in Queensland. We know this equipment could one day save the life of a child in our community. The grassroots clubs and organisations are at the heart and soul of our efforts and our corporate Ambassadors, Steve Waugh and Laura Geitz have been terrific in assisting that effort.

Our people are at the heart of what we do and during the year, a refresh of the Company's core values was undertaken recognising that a good corporate governance framework is vital to support the culture that values integrity, respect and ethical behaviour. The values statement is currently being refined and will be communicated throughout the organisation through leadership, training, recognition, communication and reinforcement.

Most heart-warming has been correspondence from customers of over 50 years, including a copy of a sales contract, from one of our employees, Joe Cassera, whose parents purchased their AVJennings home in 1972. Happy customers 50 years on is something they and we can be proud of. We are motivated to build great communities in the physical sense, but we are also building great communities through spirit via fundraising, volunteering and giving.

Moving forward across the next 3-5 years we continue to see the underlying themes supportive to our business. Migration came to a standstill during the Covid pandemic and government forecasts talk about over net 200,000 migrants coming to Australia each year. The massive infrastructure projects like the inland rail and the 2nd Sydney airport need sustained strong population growth to succeed. The inland rail project is a regional project, it's not just for the city and across the country there is a shortage of labour with unemployment being the lowest it has been in history. There still exists an undersupply of housing across the country, so despite the short-term difficulties in the supply chain, we believe in the long run our model will shine through.

There might be bumps along the way with rising interest rates and other potential headwinds, but Australian households in the main are reasonably well placed to weather these conditions provided they are not too prolonged nor too severe. Savings rates have increased substantially over the last few years, allowing households to absorb a rise in interest rates without too much pain by providing a buffer for any potential future rises.

The Company remains committed to deliver outcomes our customers, stakeholders and the community expect. The Board believes we are on the right trajectory to grow revenue and earnings in financial year 2023.

ENDS.

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