

ASX/Media Release

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AVJennings delivers strong results in a challenging year

Highlight Summary

- Revenue of \$274m, up 23% (FY22: \$223m)
- Gross Margin of 31.7%, up 2.9 percentage points (FY22: 28.8%)
- Profit Before Tax of \$31m, up 72% (FY22: \$18m)
- Contract signings of \$155m, down from \$305m in FY22
- No final dividend declared

FY23 Financial Results

The Company recorded a Profit Before Tax of \$30.8m, an increase of 72% on the prior corresponding period (PCP) and EPS of 5.2 cents up 63% on the PCP (FY22: 3.2 cents), driven by a 20% increase in settlements to 732 lots (FY22: 608 lots). Revenue grew 23% to \$274m, and Gross Margin increased 36% to \$86.9m (FY22: \$64.1m). Profit After Tax was \$21.3m, a 63% increase over the PCP (FY22: \$13.1m).

Significant settlement growth was achieved with 732 lots settled during the year compared to 608 in the prior year. There was strong demand for AVJennings' land offering as the impact of the previous year's sales, driven by HomeBuilder stimulus, settled. Key project contributors to settlements during the year included Lyndarum North (VIC), Ara Hills (NZ), Riverton (QLD), Cadence (QLD), and Aspect (VIC). This skew to land settlements helped lift gross margin by 2.9 percentage points to 31.7%.

No final dividend was declared in the face of the challenging market conditions and near-term uncertainty. The share buyback has also been suspended. Given the current market conditions, the Company continues to be prudent with the deployment of capital.

AVJennings' CEO Phil Kearns said "In addition to the strong financial results, we made progress on bringing more integrated housing product to market in response to a recent shift in demand from buyers. We took a huge step forward on our journey to deliver more affordable and environmentally sustainable housing by entering into a JV with Pro9 Global (Pro9) to manufacture its highly durable and energy-efficient prefabricated walling system in Australia. AVJennings keeps its customers front of mind and our customers are increasingly telling us they want greater certainty with completed homes and for sustainability to be front and centre of our thinking. The 9.4 NatHERS energy ratings recently achieved in Queensland with Pro9 is testament to this commitment."

"Throughout FY23 we maintained a prudent approach to capital deployment recognising forward market uncertainty. This includes not declaring a final dividend for FY23 and suspending the share buyback. The higher interest rate environment continues to significantly weigh on customer demand. We seek the understanding and support of shareholders in this decision."

"Having operated in Australia for over 90 years, AVJennings continues to meet the challenges confronting the Australian and New Zealand housing industry head on, positioning ourselves to deliver returns for investors as market conditions improve."

Customer preference shifting to built-form

An encouraging shift in customer demand away from land towards built-form housing, presents a strategic opportunity for AVJennings. Our internal design and construction teams enable us to rapidly adjust our project pipeline to meet changing customer demands.

Our Turnkey housing offering delivers a home under one contract, one deposit and one settlement, as do our apartments under construction. This now represents 62% of our lots under construction, up from 51% in FY22.

Strategic management of land pipeline

The Company retains a very strong, and geographically diversified, pipeline as the basis for future growth with 14,094 lots under control (+11% on PCP).

In the first half of FY23, we undertook some strategic restocking in SE Queensland and NSW including:

- Beaudesert (QLD) - 1,146 land lots
- Macarthur (NSW) - 725 apartments
- Mundamia PDA (NSW) - 308 land lots
- South Ripley PDA (QLD) - 400 land lots

However, in light of market uncertainty and sustained price expectations, we have scaled back our acquisition activities until buying conditions improve and as we prioritise prudent capital management.

Investing in prefabricated, energy efficient housing

AVJennings has entered into a JV to manufacture energy efficient homes. The JV with Pro9 Global utilises its technology to manufacture highly durable and energy-efficient prefabricated walls in Australia, with an initial target of producing up to 1,000 homes annually. The technology saves considerable time to lock-up stage and produces higher quality homes with superior sustainability outcomes for their future occupants. This investment will also expedite delivery of built-form housing across projects once the Australian manufacturing facility is established, having the potential to redefine the Company's revenue and earnings profile.

Following positive buyer response in NSW, the AVJennings Pro9 homes, called the Stellar Collection, have been rolled out in Queensland and Victoria, with a pipeline of homes planned for FY24 across more AVJennings communities in Queensland, New South Wales and Victoria.

Flexibility to adjust production in response to demand

Our integrated business model allows us to quickly adapt to current market conditions, and in the face of 12 interest rate rises in Australia since May 2022, only 11% of the portfolio is under active construction in FY23 compared to 15% in FY22.

Sales contracts signed in FY23 are down substantially on last year, at \$155m (348 lots) vs \$305m (853 lots). Despite some challenges, 321 lots are presold, at a value of \$130m, to be carried in to FY24. Enquiry rates remain in line with our longer-term averages indicating pent up demand that we expect to come through as consumer confidence improves.

Outlook

The medium-term outlook for the housing sector remains positive, supported by a growing structural imbalance between population growth, driven mainly by immigration, and significant supply shortfalls across the residential market. The supply shortfall, a result of disconnected planning regimes across the country and of a lack of suitably serviced zoned land, is now forecast to be ~175k homes by 2027. Low unemployment is also expected to continue to support demand.

While green shoots of customer demand are appearing, particularly for built-form housing, market conditions are expected to remain subdued in the short-term until consumer confidence, and the ability to procure finance, improves off the back of interest rates stabilisation.

AVJennings remains focused on:

- Prudent capital management and a restructure of our capital to be fit for purpose and to support growth.
- Conversion of \$130m presales to FY24 settlements.
- Ensuring projects are “shovel ready” to quickly activate production and increasing capital allocation towards built-form in response to expected market demand.
- Improving the sustainability outcomes across our developments.
- Modernising our business foundations to support growth.

The Company will review capital management initiatives, including dividend position, when market conditions and the outlook for profitable growth are more certain.

ENDS.

This announcement was authorised for release to the market by the Board of Directors of AVJennings Limited.

CONTACT:**Investor Relations:**

Carl Thompson
Company Secretary
Ph: +61 417 143 411

Investor Relations & Media:

Andrew Keys
Keys Thomas Associates
Ph: +61 400 400 380