

Villa World Limited
Morgans 2014 Annual
Queensland Conference



10 October 2014
villaworld.com.au
Since 1986



OVERVIEW

- ✓ Established in 1986, Villa World is Queensland's oldest ASX listed housing developer and one of Australia's largest integrated housing providers.
- ✓ Today, more than 35,000 Australians call a Villa World address, home.
- ✓ Our homes are complete, ready to be move in to. Our internal and external finishes are selected by professional designers and there are no extra costs.
- ✓ We ask for only one deposit, one contract and upon completion one final payment.
- ✓ Land subdivisions are located in growth areas, close to employment, transport and amenities.
- ✓ Villa World's sales and marketing strategy, coupled with improved market conditions, has resulted in strong sales and profit growth.
- ✓ Villa World's business model is distinctly different from our counterparts because our housing business is profitable.
- ✓ Villa World provides a lower risk entry in the property market – land only and house and land product across the Eastern seaboard.
- ✓ We acquire zoned land, that in the majority of cases is planning approved.
- ✓ Carried forward sales and strong development pipeline provide visibility to sustainable profitability.
- ✓ Villa World has 93.7 million shares on issue and is capitalised at \$190 million

BUSINESS DRIVERS

✓ SALES

Core product in **low to mid price point** – downturn resilient buyer. Market focus on value for money.

Broad sales platforms – owner occupiers including second home buyer and downsizers, first home buyers, domestic and international Investors.

Product design – continually renewed to meet needs of individual market segments.

The Complete Address – know what your home and street look like.

The Completed Home – fixed price, no hidden costs.

The Single Contract – buying is easy: one deposit, one contract and one final payment upon completion.

✓ DELIVERY

No variations – results in an efficient planning and build process; significant reduction in back office staff and build costs.

Speculative build model – selling an “Address” or community, significantly benefits sales.

Systematic build out - reduction in construction costs – buy in bulk; building sites operate efficiently reducing material wastage and subcontractor time slippage.

Profitable - make money out of land subdivision and housing.

Scalable – able to stop and start construction quickly, as internal resources are deployed for construction management, design and quantity surveying only; all trades and labour are subcontracted.

Suppliers – cost efficiencies due to standardised product, improved buying power bulk purchasing and recently Victorian suppliers competing for national business.

Subcontractors – no supply constraints / limited price pressure – adequate labour supply coupled with subcontractor loyalty – paid weekly; organised work site; continuous work provided even during down turns.

BUSINESS DRIVERS

✓ ACQUISITIONS

Location - growth areas, close to transport, employment and amenities; maintains buyer demand in more difficult conditions.

Acquiring only **zoned land**, that in the majority of cases is planning approved - minimizes risk; allows faster product completion and capital recycling.

Typically short to **medium term projects** – not exposed to large movements in underlying value of inventory.

Capital lite – leverage our building capability on partners land bank.

Longer dated projects through **structured deals** or partnered arrangements.

Success in acquisitions - due to funding capacity; nimble process; alternate acquisition structures which leverage our profitable building business and marketing channels.

Increased **competition** for sites, but more and better quality sites coming to market. Some price increases.

✓ CAPITAL MANAGEMENT

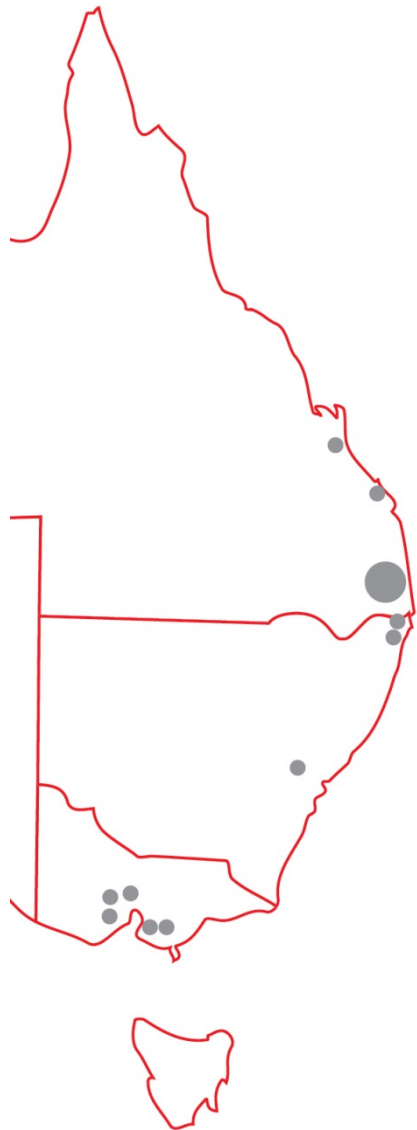
Flexible banking facility extended through to September 2016; comfortably meeting banking covenants.

Strong institutional support for **capital raising** in FY14.

Banking and investor relations initiatives intended to assure ongoing access to capital and reduce cost of capital.

Foresee sustainable **profitability and dividends**.

MARKET FUNDAMENTALS



Key residential market drivers are expected to remain positive in our markets in FY15:

- First home buyer grants and stamp duty concessions.
- Low interest rates.
- Consumer confidence.
- Employment.
- Population growth.

QLD	<p>Earlier phase of the housing cycle than other states.</p> <p>Upswing expected to continue in mid term.</p> <p>First home Buyer Grants on new build only \$15,000 and stamp duty concessions.</p> <p>Additional regional city grants (Hervey Bay \$12,000).</p>	<p>Villa World - 2,700 lots:</p> <ul style="list-style-type: none"> • Brisbane market (north and bay side) expected to remain strong; presence to increase in FY15. • Return to a strengthening Brisbane – Gold Coast corridor. • Regional Queensland – managed to meet the market.
NSW	<p>Strong price rises and declining affordability in Sydney.</p> <p>First home Buyer Grants on new build only \$15,000 and stamp duty concessions.</p>	<p>Villa World - 130 lots:</p> <ul style="list-style-type: none"> • Build on the recent success on the Tweed Coast. • Near sold out, land only project in NW Sydney.
VIC	<p>Strong population growth.</p> <p>Strong volumes expected to continue.</p> <p>First home Buyer Grants on new build only \$10,000 and stamp duty concessions.</p>	<p>Villa World - 1,000 lots:</p> <ul style="list-style-type: none"> • Competition in the SE Corridor is strong, containing prices, however good volumes. • Moving into the northern growth corridor.

SCORECARD - SALES

Achievements:

- ✓ Step change in sales to 829 in FY14 (FY12: 496; FY13: 610).
- ✓ Sales and marketing strategy focused on broadening customer mix – actively targeting first home buyers and investors, as well as our traditional owner occupier market.
- ✓ Revenue growth due to shift in product mix towards housing product and some margin expansion. Volume builder – balance volume with price.
- ✓ Successful Ambassadors Club.
- ✓ High level of customer satisfaction and after sales service.

Targets / Goals:

Market demand for Villa World product is expected to remain strong in the year ahead.

Near term sales target of 1000 sales per annum.

Sales commence at 3 replacement projects and in 2 new geographies with a further 8 projects released for sale in FY16.

Increase presence in First Home Buyer and Investor market by developing suitable product, helping through the process and further developing marketing channels.



SCORECARD - DELIVERY

Achievements:

- ✓ 4.7 years supply - 3,925 lots controlled over 32 projects.
- ✓ 65% of the portfolio is house and land product, 6% integrated housing and 29% land only product.
- ✓ Victorian building division established in FY14.
- ✓ 193 lots of land only product and built 425 homes on registered lots in FY14.
- ✓ Margins maintained - some cost increases have been felt and are still anticipated; these are adequately built into feasibilities; concurrent sales price escalation is also occurring.

Targets / Goals:

Inventory levels lifted by mid FY15 to meet projected market demand – in excess of 800 land lots to be completed in FY15, including ~650 lots with homes built.

Shift to house and land rather than land only product – higher dollar margin per lot.

9 new project start contributing to revenue in FY15, with another 8 new projects contributing to revenue in FY16.

Land only product in Sydney; commence building operations once market conditions become favourable.



SCORECARD - ACQUISITIONS

Achievements:

- ✓ Successful restocking program since July 2012 – 19 projects; 2,168 lots; 3 states.
- ✓ Victorian portfolio is being grown - 71% of the portfolio is located in Queensland (FY13: 86%), 26% in Victoria (FY13: 11%), and 3% in New South Wales (FY13: 3%).
- ✓ Acquisition of replacement sites for successful projects, sites in targeted growth corridors, as well as highly profitable, boutique acquisitions.
- ✓ Efficient use of capital – structured terms or capital lite transactions.

Targets / Goals:

Capacity and resolve to acquire land remains strong.

Land bank target of 5 to 6 years supply.

Replenish Queensland land bank; grow Victorian land bank. Enter New South Wales when appropriate.

Focus remains on SE Queensland, SE and N growth corridors of Melbourne and infill sites in both Melbourne and Brisbane.

Projects with a 2-5 year duration will be targeted. Larger projects will be appropriately structured through joint ventures or deferred payment terms.



SCORE CARD – CAPITAL MANAGEMENT

Achievements:

- ✓ Recapitalised - \$32.2 million equity raising in September 2013; banking facility limit increased to \$155 million.
- ✓ Banking facility extended to September 2016. Favourable borrowing terms – no presale requirements.
- ✓ Prudent gearing – 18.7%; interest cover 5.45 times.
- ✓ Return to dividends - FY14: 15 cps fully franked.
- ✓ Share register - broad institutional following.

Targets / Goals:

- Dividend Policy – 50% to 75% of NPAT.
- Board – search for 4th independent director.
- Manage investor and financier relations to reduce the cost of capital.
- Enter the ASX 300 at the next reweighting.



FINANCIALS

✓ FY14 profit

- NPAT of \$19.1 million (eps: 21.8 cps).
- PBT of \$22.6 million (eps: 25.8cps), exceeding the guidance

✓ Shareholder returns

- Full year dividend of 15 cents per share fully franked; Payout ratio of 74%. Yield of 7.4%¹.
- Over FY14, share price growth of 79%² and total shareholder returns of 92%².

✓ Strong balance sheet

- NTA of \$1.92 per share (prior to final 9 cent dividend).
- Gearing remains at a prudent 18.7% (FY13: 24.4%) with interest cover of a strong 5.45 times.
- \$87 million in unused funding capacity (including cash on hand).
- \$32.2 million capital raising in September 2013 (at \$1.60 per share).
- Debt facility extended until 1 September 2016 and facility limit increased to \$155 million.
- \$34.6 million carried forward unused tax losses; \$13.08 million franking credits (after final dividend).

✓ FY15 guidance

- 335 carried forward sales, valued³ at \$141.5 million, provide visibility into FY15.
- PBT growth of in excess of 5%, weighted towards the second half; further upside dependent on market conditions and product delivery.
- Dividend Policy reconfirmed – full year payout ratio of 50% - 75% of NPAT, paid semi-annually.

¹ Based on share price of \$2.02 at 30 June 2014.

² Share price of \$1.13 at 30 June 2013 to \$2.02 at 30 June 2014; Full year dividend of 15 cps.

³ Represents gross sales price including GST based on carried forward contracts as at 30 June 2014.

VILLA WORLD INVESTMENT DIFFERENCE



Low risk entry into property:

- For over 25 years, Villa World has been creating homes for people at all different stages in life – FHB, Owner Occupiers, Investors.
- Land only and house and land product.
- Diversified across states and within markets.
- Everyday, affordable housing – downturn resilient segment of the property market.
- Development portfolio fairly valued.
- Consistent sales across many projects result in strong, consistent cash flows.



Successful restocking program since July 2012.



Recapitalised with conservative gearing.



Positive outlook:

- Strong carried forward sales.
- 9 new project contributing to revenue in FY15, and a further 8 new projects contributing to revenue in FY16.
- Product mix shift to house and land.
- Strong exposure to a rebounding SE QLD residential market.



Return to dividends – 50% - 75% payout policy.



Diversified share register.



Proven senior management team focussed on success through property for customers, suppliers and contractors, employees, and investors.

Success

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