AVJennings Limited Results Briefing Presentation – Speaker Notes

(to be read in conjunction with the first half FY23 Financial Results Presentation released to the market on Thursday, 16 February 2023)

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

On behalf of AVJennings I'd like to acknowledge the Traditional Custodians of the lands on which we work today and we build communities and acknowledge 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 last February, I talked about heading towards normality and how much we looked forward to that. Twelve months down the track we are still in interesting waters. Extraordinary rain events, continue literally up until this week where it was New Zealand's turn again, however all sites have experienced heavy rain, flooding and therefore, production issues. Covid and supply chain complications have eased slightly but inflation and interest rate rises continue to impose difficult trading conditions in our industry across Australia and New Zealand.

During this difficult period we have 'stuck to our knitting' and that's what we plan to continue to do at AVJennings as we develop and sell affordable master planned communities in sought after locations and buy 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. Our new role, Head of the Future and Sustainability, that we discussed in our last update is in place as we look out to what our customers, communities and partners want to see from AVJennings over the next 20-30 years. The formulation of this strategy will come to fruition in April at our Board meeting where Directors will set the direction with management.

First Home buyers and subsequent home buyers still make up over 50% of what we do, however we expect investors to play an increasing role in the market and with demand for social infrastructure rising, the government at all levels will continue to play an important role. The government is forecasting a net 200,000 increase in migrants coming to Australia each year and it is important that we work with the government to ensure these people have a place to live to build their lives.

We have made more capital efficient transactions as the market evolves through this interest rate cycle and this includes acquisitions in regional areas as we explore the trend to move to the regions. We have also worked with some previous long term partners to extend our land bank in Queensland and Victoria which is reflective of AVJennings culture of respect and partnership.

We continue to ensure that our portfolio is diverse as it helps to mitigate market risk and we now have 14,395 lots under our control up from 12,733 as of June across all major states and in New Zealand which is another area we see future growth. Our acquisitions team acquired sites in the Shoalhaven region of NSW and Macarthur in the critical growth area of southwestern Sydney. In Queensland we continue to expand our Cadence Project in the Ripley area and expanded into Beaudesert.

For the second year in a row rain has disrupted the financial result due to the delayed timing of settlements. However, we have been able to settle a majority of what we were hoping for due to the hard work of our team. Global issues such as supply chain challenges and material shortages added to labour shortages and Covid 19 affected production across the whole industry, including AVJennings but there seems to be some light at the end of that tunnel.

Our 2023 financial year is underwritten by 683 contracts on hand as at 1 July 2022 with the vast majority to settle through the year. 415 of those we have been able to close out in the first half. Our growth strategy is in place which includes more built form product, our financial position is strong as our levels of unsold stock are at record lows of less than 3.5% of WIP 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.

Over the next few years, we plan to extract greater productivity and efficiency with our current resources. We continue to increase the volume and proportion of built form product we put on our land and into our communities. Our strategy and focus is fairly and squarely on Return on Equity and Earnings per Share.

We have had a strong first half with an 87% increase in EPS as we deliver on our settlements and improve our production. Our average gross margins have improved to 35%. Total revenue is up 20% to $140.4m and our pre-tax profit grew by 106% to $21.8m. Our production team is delivering on the pipeline of sales we had in 2022 and our settlement volumes were 22% higher.

An interim dividend of 1.1 cents per share was declared for the first half FY23, up from the previous half of 0.67 cents representing a grossed up fully franked yield of 6.2%.

Revenue recognition this half year has been impacted by apartments playing a smaller role in our mix of products, which reflects the Empress apartment settlements made at Waterline Place, Victoria in financial year 2022.

Calendar 2024 will be when we expect to see further apartment settlements as the final stage of Waterline Place is scheduled to be completed.

Our financial position is strong with our $300m Club facility in place whilst our borrowings are well within covenants at $164 million. Our total assets increased from $730m to $846m. In line with strategy, we have used our cash flow to increase the built form and make quality acquisitions.

Given where interest rates have moved our capital management settings have been prudent and continue to leave us with the ability to achieve our growth ambitions in the medium to long term. Net debt remains relatively low at $150m and gearing below 20%, a more than prudent level. Again, this leaves us with the ability to fund our strategy of growth and increased built form.

Our lots under development reached 1,612, down from 1,888 last year as we manage inventory in a market that has slowed from interest rate pressures. We remain nimble and manage production, in line with the market sentiment and enquiry levels.

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. We continue to support the Humpty Dumpty Foundation including supplying another piece of life saving medical equipment to Wyong Hospital near our Warnervale development. 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. We have placed increased emphasis on personal development and training as we strive to stay ahead of an ever-changing societal landscape. Our leadership team is expanding as we need leadership in the business as we evolve with the demands of our communities. Leadership, training, recognition, communication and reinforcement are so important to continue past our 90 year journey.

Moving forward across the next 3-5 years we continue to see the underlying themes supportive to our business. Migration is on the way back with net 200,000 expected to come to Australia every year. The massive infrastructure projects like the inland rail and the 2nd Sydney airport need sustained strong population growth to succeed. Huge parts of Australia need rebuilding as we recover from flooding especially in Northern and regional areas of NSW. There is a shortage of labour with unemployment continuing to be the lowest it has been in history. There still exists an undersupply of housing across the country, so despite the headwinds of rain, supply chain difficulties, labour shortages and higher interest rates we believe in the long run our model will shine through.

Australians and Australian households are remarkably resilient, and we have weathered difficult conditions before and we will do it again. Savings rates have increased substantially over the last few years allowing many families a buffer to absorb a rise in interest rates.

This doesn’t last forever but it has provided a cushioning for many. Whilst we are happy with our half year result we cannot take our hands off the wheel as the ever changing economic landscape throws up challenges that ensures we are alert and prudent at all times.

The Company remains committed to deliver outcomes for our customers, stakeholders and the community.

ENDS.

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