

20 August 2019

VILLA WORLD LIMITED ABN 38 117 546 326 ASX CODE: VLW

Villa World Reports Results for Full Year Ended 30 June 2019

Residential house and land developer Villa World Limited (ASX: VLW) has declared a net profit after tax of \$23.0 million.

FY19 key headlines:

- Statutory profit after tax: \$23.0 million (FY18: \$43.6 million).
- EPS: 18.2 cps (FY18: 34.4 cps).
- 992 sale contracts carried forward with a gross value of \$291.4 million¹ (FY18: 871² contracts worth \$284.6 million).
- \$391.6 million³ in revenue (FY18: \$441.6 million).
- 870 sales recorded (FY18: 1,788 lots).
- Scheme Implementation Agreement agreed with AVID Property Group Australia Pty Limited (AVID) under which AVID proposes to acquire all shares in Villa World for \$2.345 per share.
- No FY19 final dividend declared.

Financial Result

Villa World ended the 2019 financial year reporting a statutory net profit after tax of \$23.0 million (18.2 cps), down 47% on the prior period's result of \$43.6 million (34.4 cps). This result is consistent with commentary disclosed to the market since December 2018 and reflects the decline in the Australian residential housing market and softer consumer sentiment.

Scheme Implementation Agreement with AVID

On 8 July 2019, Villa World announced that it had entered into a binding Scheme Implementation Agreement with AVID under which AVID proposes to acquire all shares in Villa World for \$2.345 per share (Total Cash Consideration) (Scheme).

The Board intends to declare a 31.0 cents per share fully franked Special Dividend if the Scheme becomes effective. If declared, shareholders will receive the Special Dividend and a reduced Scheme Consideration of \$2.035 per share to form the Total Cash Consideration of \$2.345 per share.

The Villa World Board unanimously recommends that Villa World shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to an independent expert concluding and continuing to conclude that the Scheme is in the best interests of Villa World shareholders. Subject to those same qualifications, each director of Villa World intends to vote all the Villa World shares held or controlled by them in favour of the Scheme.

¹ Represents gross sales price including GST. Contracts for wholly owned and joint venture projects are included at 100%.

² Statistics for split contracts and joint ventures are recorded as one single transaction. Prior year comparatives are restated to reflect the change, refer to ASX 1H19 investor presentation for details (slide 24).

³ FY19 revenue recognition per AASB 15 with house and land and land only contracts being recognised upon cash settlement. FY18 revenue recognition was under AASB 118. Refer to section note E5 (h)(iii) in the 2019 financial statements.

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In making this recommendation, the Board considered several factors, including:

- **Premium** – the scheme consideration of \$2.345 represents:
 - a 17.8% premium to the Villa World closing share price of \$1.99 on 14 March 2019⁴;
 - a 17.4% premium to the one-month volume weighted average price (VWAP) of \$2.00 per Villa World share up to 14 March 2019;
 - a 25.1% premium to the three-month VWAP of \$1.88 per Villa World share up to 14 March 2019; and
 - a 2.9% premium to the 30 June 2019 NTA per Villa World share of \$2.28;
- **Certainty of value** – if the Scheme is implemented, the 100% cash consideration payable to Villa World shareholders provides Villa World shareholders with certainty of value and the opportunity to realise their investment in Villa World at a certain cash price; and
- **Special Dividend** – there may be an opportunity for Villa World shareholders to benefit from franking credits that may be attached to the payment of a Special Dividend, if declared (subject to a favourable class ruling from the Australian Taxation Office).

Villa World expects to dispatch a Scheme Booklet to Villa World shareholders in September 2019 and to give Villa World shareholders the opportunity to vote on the Scheme in mid-October 2019. Subject to shareholder approval and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in late October/early November 2019. These dates are indicative and subject to change.

Operational Performance

Villa World recorded \$391.6 million in revenue for the year driven by cash settlement of strong carried forward sales and an increase in average revenue per lot (FY18: \$441.6 million). Settlement of wholly owned lots for the year totaled 1,049⁵ down from 1,303 lots in the prior period.

The reported gross margin was \$93.0 million or 23.7% (FY18: \$111.4 million or 25.2%⁶), within the guidance range of 23% - 25%. Strong margins were achieved at flagship Queensland projects *Arundel Springs*, Gold Coast, and *The Meadows*, Strathpine.

During FY19, the Company continued to deploy development management skills into joint venture arrangements, delivering \$1.3 million in fee income (FY18: \$11.1 million which included a one-off \$7.3 million fee). Further, the share of profit from joint ventures was \$2.1 million (FY18: \$6.4 million) which related to land settlements from the Covella joint venture and the completion of the successful Rochedale joint venture.

Villa World's scalable business model enabled the active management of overhead costs during the period which will also be realised in FY20 through a reduction in employee costs of 6.4%.

Sales Performance

In December 2018, the Company reported that a decline in Australia's residential housing market conditions and customer sentiment, plus tighter lending conditions, had led to lower sales and enquiries. These conditions continued throughout 2H19 with the Company recording 870 sales, down 51% on FY18 (1,788 lots). The average sales rate reduced to 73 per month (FY18: 149 per month).

⁴ 14 March 2019, being the last closing price of Villa World shares prior to the announcement of the initial proposal received from AVID and announced to the market on 14 March 2019.

⁵ Total settlements FY19: 1,158 lots (FY18: 1,451) of which 1,049 lots are from wholly owned projects (FY18: 1,303) and 109 lots from joint venture projects (FY18: 148). Joint venture settlements are reflected in Share of Profits from Joint Ventures.

⁶ From 1 July 2018 the Company has changed the presentation of borrowing costs previously capitalised and net impairments, into the cost of inventory sold. Refer to note C5 in FY19 financial statements.

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CEO and Managing Director Craig Treasure said: “A softening of consumer sentiment, continued tightening of credit and market uncertainty in the lead up to the Federal election all contributed to difficult headwinds. We are seeing that sales enquiries have started to improve across Villa World’s projects however, buyers remain cautious.”

Villa World’s Queensland projects contributed 55% of sales driven by flagship projects *The Meadows* (Strathpine), *Killara* (Logan) and *Arundel Springs* (Gold Coast) (FY18: 66%). Demand in Victoria has moderated from the record highs previously achieved with sales this year representing 39% of total sales (FY18: 31%). New South Wales made up the remaining 6% of sales (FY18: 3%).

The Company maintains a presence across its key customer segments, being retail buyers comprising of first home buyers and other owner occupiers, as well as builders and local investors.

The Company will carry forward 992 sales contracts worth \$291.4 million⁷ into FY20. The Company anticipates the timing of settlements of those contracts to be: 48% valued at \$151.5 million in 1H20; 22% (\$63.7 million) in 2H20; 16% (\$37.0 million) in FY21 and 14% (\$39.2 million) settling in FY22 to FY25.

As also anticipated in December 2018, there were delays in delivery of some stages of Victorian projects. However, sales in stages 1 to 4 at *Lilium*, Clyde commenced settling in May 2019 and are continuing into FY20. Settlements are well progressed and although some defaults have been recorded, the impact has been mitigated through retention of deposits and the ability to resell those lots. The Company continues to carry forward significant unconditional sales in future stages of *Lilium* along with *Sienna Rise* and *Sienna North*, Plumpton.

Cash Flow Performance

Positive net cash flow from trading activities of \$126.3 million and \$102.8 million headroom in the debt facility is a result of cash settlement of strong carried forward sales and disciplined management of costs. During the year \$29.9 million was expended on the acquisition of new land, including \$15.4 million funded through capital lite transactions. The land acquisition payable at 30 June 2019 is \$42.1 million (FY18: \$33.7 million). Since year end, \$12.8 million has been paid, and the balance will be settled from operating cash flows, existing debt facilities and settlement proceeds from third party settlements.

As reported on 14 August 2019, ANZ is now the sole lender under the Club Financing Arrangement, having increased its facility limit to \$190 million and extended the staged maturities through to 31 October 2023.

Balance Sheet

Net tangible assets at year-end were \$285.5 million (FY18: \$309.7 million), representing \$2.28 per share (FY18: \$2.44). Gearing at 30 June 2019 was 24.1% reduced from 29.7% as at 30 June 2018, within the Company’s target range of 15% to 30%. Net debt as at 30 June 2019 was \$115.3 million (FY18: \$171.1 million).

The Company commenced an on-market share buy-back in October 2018 for up to 5% of shares on issue, funded from working capital. The Company ceased to buy back shares under the on-market share buy-back in March 2019 at which time the Company had purchased 1,766,341 shares at an average price of \$1.91 per share. The buy-back represented a prudent deployment of capital when the share price was trading below NTA and was NTA and earnings per share accretive.

Portfolio

The Company has focused on the development of the current portfolio and delivery of carried forward sales whilst maintaining a commitment to astute acquisitions. As at 30 June 2019, Villa World’s portfolio was 6,596 lots (FY18: 7,064 lots), representing approximately 5 – 6 years of sales.

⁷ Contracts for wholly owned projects and joint venture projects are included at 100%. Represents gross sales price including GST. (FY18: 871 sales contracts worth \$284.6 million).

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The Donnybrook Joint Venture is contracted to sell two significant englobo land parcels at 960 Donnybrook Road and 1030 Donnybrook Road, Donnybrook. The Villa World's share of revenue from the sales will be recognised progressively in line with the staged settlements, and is dependent on the outcome of the Precinct Structure Plan approval process. It is expected that revenue from the sale contracts will begin to be recognised from 1H21, underpinning earnings through to FY24.

Current market conditions may present opportunities in FY20 for astute acquisitions and strategic partnering relationships. With disciplined capital management and cash inflows expected from carried forward sales, the Company is positioned to capitalise on opportunities.

FY19 Dividend

Villa World will not be declaring a final dividend for FY19. The total dividend for the financial year ended 30 June 2019 is 8.0 cents per share fully franked, representing a payout ratio of 44%. The ratio is outside the dividend policy of 50% to 75% payout ratio.

Outlook

Villa World will continue to focus on operational delivery and cash settlement of carried forward sales. The business cost structure continues to be managed in light of current trading conditions, with a reduction in overheads during 2H19 to be realised in FY20.

Since the Federal election in May 2019, improved market fundamentals have included tax offsets, reduction in the cash rate, some improvement in credit availability and the Government's continued commitment to assisting first home buyers.

The Company expects that an upturn in sales enquiries may convert to an increase in sales rates during FY20, although buyers remain cautious.

The Company expects its FY20 gross margin to be within the 23% to 25% guidance range.

Development management fees and share of joint venture profits will continue to provide an ongoing revenue stream, as the Company pursues capital-efficient growth opportunities that provide a strong return on assets.

Mr Treasure said: "Villa World's projects are located where people want to live, our homes are priced within the reach of customers and our turnkey homes offer a unique customer experience.

"Our strong customer centric strategy and our purpose of *Helping People Reach Home* is core to our business."

"The transaction with AVID recognises these strengths and provides our shareholders the opportunity to realise their investment in Villa World at an attractive and certain price."

FY19 Financial Results live audio stream

Villa World's FY19 results presentation will be webcast on Tuesday 20 August 2019 at 1pm AEST at the following link <https://webcast.openbriefing.com/5256/>

Subsequently, the webcast will be archived on the Company's website <http://www.villaworld.com.au/investor-centre/media-release/brief-video> and at <http://www.openbriefing.com/OB/3335.aspx>

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