20 August 2020

MIRVAC GROUP FULL YEAR RESULTS – 30 JUNE 2020

Mirvac Group (Mirvac) [ASX: MGR] today announced its full year results for the financial year ended 30 June 2020 (FY20). The Group achieved solid results in challenging conditions including an FY20 operating profit of $602 million, down 5 per cent on FY19, representing 15.3 cents per stapled security (cpss) and DPS of 9.1 cpss.

Mirvac's CEO & Managing Director, Susan Lloyd-Hurwitz, said, "We saw strong momentum for the majority of the year, but the outbreak of the COVID-19 pandemic caused a significant financial impact across the business from the third quarter. Our robust capital position going into the crisis provided resilience, and we responded swiftly to mitigate the impact of the pandemic on the business. Our proven strategy and track record, and our careful approach to our development pipeline mean that we have a great deal of flexibility as we prepare for the recovery to come."

Key metrics across the Group:

- operating earnings before interest and taxes (EBIT) of $796 million, a decrease of 6 per cent (June 2019: $849 million);
- achieved a three-year rolling return on invested capital (ROIC) of 8.9 per cent;
- statutory profit of $558 million, down 45 per cent (June 2019: $1,019 million), driven by the economic impacts of COVID-19 and valuation changes to the portfolio;
- total full-year distributions of $357 million, representing 9.1 cpss, a decrease of 19 per cent;
- completed approximately 134,300 square metres[1] of leasing across the investment portfolio, with high occupancy maintained at 98.6 per cent[2] and a WALE of 5.6 years[3];
- maintained residential sales momentum with over 1,800 sales despite disruption, settling 2,563 residential lots, including a record 1,130 apartments during the financial year;
- extended the Group development pipeline to $23.8 billion across mixed-use, office, industrial, residential and build to rent (BTR), offering future value and optionality[4];
- commenced pre-leasing on the Group's first BTR project, LIV Indigo at Sydney Olympic Park and acquired two additional Melbourne based BTR projects, extending the pipeline to approximately 1,700 apartments across four projects;
- reduced carbon emissions by 60 per cent across the investment portfolio;
- ranked at #7 globally in Fast Company World's Most Innovative Companies List 2020 – Urban Development & Real Estate category; and
- released Planet Positive: Waste & Materials, mapping our journey to send zero waste to landfill by 2030.

Ms Lloyd-Hurwitz said, "Mirvac showed true corporate leadership in its early response to the COVID-19 outbreak. Our people showed commitment as they worked through the complex and shifting

[1] Excludes leasing of assets under development.
[2] By area, including investments in joint ventures and excluding assets held for development.
[3] By income, including investments in joint ventures and excluding assets held for development.
[4] Represents 100 per cent end value of committed and uncommitted future developments and is subject to planning approvals, market conditions and COVID-19 impacts.

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environment to maintain their productivity and deliver on our promises. They also showed compassion, as they went out of their way to care for each other, as well as our partners, customers and communities. At a time when the future landscape remains uncertain, we are guided by our principles, and the belief that now, more than ever, we have a responsibility to be a force for good."

Key metrics of COVID-19 impacts:

- $86 million net impact on earnings, including $48 million for provision of rental receivables and waivers, $23 million new business and residential project write-offs and other items including lower NOI from Tuckerbox (Travelodge Hotels) investment; and
- $32 million net impact on earnings due to the impact of delays, primarily residential settlements, and timing of residential development payments.

Ms Lloyd-Hurwitz said, "As the pandemic broke, Mirvac moved quickly to work with tenants to provide a range of assistance measures. The Group has provided various types of assistance to tenants, primarily in the retail sector, whose businesses have been significantly impacted by the pandemic, particularly small and medium enterprises."

In response, management undertook several initiatives to mitigate the impacts of COVID-19, resulting in a favourable $29 million net impact including:

- the Board and ELT took a voluntary 20 per cent reduction in remuneration from 1 April to 30 June 2020;
- the majority of employees took a voluntary reduction in working hours from 1 May to 30 June 2020;
- no FY20 Short Term Incentive; and
- corporate overheads and discretionary spend were reduced and non-essential capital expenditure were deferred.

Key metrics for capital management:

- increased debt facilities by $810 million[5] with terms of 3 to 4.5 years;
- extended the maturity date of some existing facilities for a further 12 months into FY22;
- reduced average borrowing costs to 4.0 per cent per annum (June 2019: 4.8 per cent), including margins and line fees;
- gearing of 22.8 per cent[6], at the lower end of the Group's target range of 20 to 30 per cent;
- liquidity increased to over $1.4 billion in cash and committed undrawn bank facilities, with only $200 million of debt maturities prior to February 2022;
- weighted average debt maturity is 6.7 years (June 2019: 8.5 years); and
- maintained A-/A3 ratings with a stable outlook from Fitch Ratings and Moody's Investors Service (equivalent to A-).

[5] Since 31 December 2019.
[6] Net debt (at foreign exchange hedge rate) excluding leases (total tangible assets – cash).

Ms Lloyd-Hurwitz said, “Mirvac took a number of important actions to provide sufficient capital capacity and resilience to manage the impacts of COVID-19. In addition to prudent capital management, our mitigation steps enabled the Group to continue to manage our development pipeline which has an expected end value of $23.8 billion[7], providing optionality and future value.”

Key metrics for Office:

- maintained high occupancy to 98.3 per cent[8] with a WALE of 6.4 years[9];
- achieved net operating income of $348 million and a like-for-like net operating income growth of 3.8 per cent;
- completed 43 leasing deals over approximately 48,500 square metres[10], with leasing spreads of 11.5 per cent;
- total office asset revaluations provided an uplift of $282 million (or 4.0 per cent) over the previous book value, supported by being overweight to prime assets in Sydney and Melbourne;
- assets under management increased to $17 billion, leading to an increase in asset and funds management earnings to $20 million;
- reached practical completion on The Foundry at South Eveleigh, Sydney and Olderfleet, 477 Collins Street, Melbourne;
- extended the office and mixed-use pipeline with new sites at Waterloo Metro Quarter, Sydney and Flinders West, Melbourne; and
- maintained an average NABERS Energy rating above 5.0 stars across the office portfolio.

Ms Lloyd-Hurwitz said, “The young, low capex, long WALE portfolio and high-quality tenants of the Mirvac Office portfolio has ameliorated the financial impact of COVID-19. Net operating income reduced by only 1.7 per cent due to COVID-19 related provisions as cash was collected for 98 per cent of FY20 billings. Net valuations in the second half of FY20 also held up, increasing by 1.1 per cent.”

“Importantly, construction momentum was also maintained throughout the period, with two projects completed in the second half of FY20: Olderfleet, 477 Collins Street, Melbourne and The Foundry, South Eveleigh, Sydney. Into the future, COVID-19 has changed our tenants’ relationship with the office, and we are committed to understanding our customers evolving needs, as we continue to redefine the future of work through our new office and mixed-use precincts.”

Key metrics for Industrial:

- maintained high occupancy of 99.4 per cent[11], with a WALE of 7.4 years[12];
- achieved over 43,000 square metres of leasing activity[13];
- total industrial asset revaluations of $34 million, representing a 3.7 per cent uplift over the previous book value for the full year to 30 June 2020; and

[7] Represents 100 per cent end value of committed and uncommitted future developments and is subject to planning approvals, market conditions and COVID-19 impacts.
[8] By area, including investments in joint ventures and excluding assets held for development.
[9] By income, including investments in joint ventures and excluding assets held for development.
[10] Excludes leasing of assets under development.
[11] By area.
[12] By income.
[13] Includes leasing of assets under development.

- progressed our $1.2 billion future industrial development pipeline in Sydney as follows:
  - received planning approval to transform a 14-hectare site at 300 Manchester Road, Auburn, Sydney, into a state-of-the-art industrial estate and vibrant employment precinct with construction due to start in FY21;
  - successfully achieved the rezoning of the 56-hectare future industrial estate and logistics hub at Mamre Road, Kemps Creek, Sydney, through the NSW Planning System Acceleration Program. A State Significant Development Application for the site will be lodged in FY21, with the potential to deliver 250,000 square metres of premium, flexible warehousing and office space; and
  - progressed the rezoning of Stage 1 of the Group's future 244-hectare industrial estate at Badgerys Creek with the site included within the Badgerys Creek 'initial precinct' in the Draft Aerotropolis State Environmental Planning Policy, released in December 2019. Both Badgerys Creek and Kemps Creek stand to benefit from their proximity to the new Western Sydney International (Nancy-Bird Walton) Airport and the M4, M7 and proposed M12 motorways, as well as over $20 billion of infrastructure improvements to be rolled out across the Western Sydney area.

Ms Lloyd-Hurwitz said, "The growth of e-commerce, further accelerated by the COVID-19 pandemic, has continued to strengthen demand for high-quality logistics and last mile facilities in key urban markets. With our $1.2 billion industrial development pipeline of strategically located sites in Sydney, we are well placed to take advantage of this demand."

Key metrics for Retail:

- maintained high occupancy of 98.3 per cent, with approximately 92 per cent of GLA open and trading as at 30 June 2020;
- comparable MAT sales decline of 4.1 per cent[14] and comparable specialty sales decline of 11.1 per cent. This was driven by growth of 1.9 per cent in the eight months to February 2020 followed by a decline of 18.2 per cent in the pandemic-impacted months of March to June;
- executed 248 leasing deals over 42,800 square metres, with the majority of deals being completed in the first three quarters of the year;
- net operating property income declined by $33 million or 19 per cent, impacted by $40 million of COVID-19 support, including rental waivers and provisions;
- total retail asset valuations declined $315 million or 9.1 per cent compared to the previous book value over the full year to 30 June 2020; and
- completed a 4,500 square metre redevelopment of Toombul, Brisbane delivering a new dining and entertainment precinct as well as a vibrant new dining destination and outdoor plaza with communal seating at Moonee Ponds Central, Melbourne.

[14] MAT movement reflects adjusted FY19 sales for Majors to be 52 weeks vs 52 weeks for FY20.

Ms Lloyd-Hurwitz said, "From the third quarter the whole Retail sector was heavily impacted by the COVID-19 pandemic. We saw significant declines in sales across our portfolio in April, with most centres showing signs of gradual recovery through May and June. We have prioritised the health and safety of our team, retail partners and customers and remain committed to operating our centres as an essential community service. Our Retail team has embraced its role as a focal point for our communities, finding innovative ways to offer help and provide support to tenants and people struggling at this difficult time."

Key metrics for Residential:

- delivered operating earnings before interest and tax of $225 million, up 12 per cent on FY19;
- settled 2,563 residential lots including a record number of apartment settlements;
- defaults for FY20 were 2.2 per cent;
- secured future income with residential pre-sales of $971 million[15];
- delivered gross development margins of 24 per cent[16];
- released over 1,500 residential lots during the 12 months to 30 June 2020 across both new and existing projects and achieved 1,843 sales;
- increased the Group's residential pipeline to ~27,400 lots by adding over 2,600 lots to the portfolio. New development sites include Riverlands and the Western Sydney University Campus, both in Milperra, Sydney, the Artarmon Road site in Willoughby, Sydney and Waterfront Sky development in Newstead, Brisbane;
- won the tender to develop Waterloo Metro Quarter, Sydney in consortium with John Holland
- received rezoning approval for 55 Coonara Avenue, Sydney to residential use, paving the way for a DA submission for a residential community comprising up to 600 homes;
- secured planning approval for a new community of 379 houses at Menangle, Sydney, and DA approval at Georges Cove, Sydney for 179 homes and increased the pipeline of DA approved apartments at Green Square, Sydney from 297 to more than 600; and
- received planning consent from the City of Sydney, for the proposed mixed-use, residential-led precinct and new landmark tower at 505 George Street, Sydney.

Ms Lloyd-Hurwitz said, "The Residential team have performed well in FY20 against a backdrop of challenging market conditions following the outbreak of the COVID-19 pandemic in the third quarter. Residential EBIT is up 12 per cent on FY19, with strong development margins, testament to the Group's ability to buy and sell in the right markets and at the right time, in capital efficient structures.

"Remarkably, the Group maintained momentum throughout the year with over 1,800 sales despite disruptions, and achieved 2,563 settlements in FY20, including a record of 1,130 apartments. We are also setting ourselves up for the coming years to deliver into a period of reduced supply. Our Residential development pipeline has an expected end value of $15.6 billion[17] diversified across land, homes and mid to high rise apartments providing flexibility and future growth opportunities for the Group."

[15] Adjusted for Mirvac's share of joint ventures and subject to settlement risk.
[16] Adjusted to include joint venture projects.
[17] Represents 100 per cent end value of committed and uncommitted future developments and is subject to planning approvals, market conditions and COVID-19 impacts.

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Outlook for FY21

FY21 is expected to be challenging as the various economic and social consequences of the pandemic develop and impact the broader property industry and our business. Given the evolving nature of the COVID-19 pandemic, Mirvac does not have sufficient certainty to provide FY21 earnings guidance.

Subject to the unpredictable and volatile nature of these as yet unknown impacts, Mirvac will target a distribution payout ratio of 65-75 per cent of operating earnings for FY21, in line with our distribution policy to pay up to a maximum of 80 per cent of operating earnings.

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