# FY12 Results Presentation

Stockland

8 August 2012


Merrylands, NSW

# Agenda

**1** **Results summary**: Matthew Quinn

**2** **Capital management**: Tim Foster

**3** **Business commentary**

- **Retail**: John Schroder
- **Office & Industrial**: John Schroder
- **Residential Communities**: Mark Hunter
- **Retirement Living**: David Pitman

**4** **Summary and outlook**: Matthew Quinn

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# The year in review

## Reasonable result in a difficult operating environment

- Retail centres delivered solid comparable sales and income growth
- Residential Communities achieved record settlements, although lower margins impacted profit
- Retirement Living delivered record sales and profit
- Solid comparable rental growth from Industrial assets, no growth from Office assets

## Responded appropriately to continuing uncertainty and volatility

- Streamlined the business and reduced overheads
- Maintained a strong balance sheet with low gearing
- Improved capital efficiency through accretive share buyback

## Proactively adapting to the changing market

- Creating leading retail centres with a clear value and convenience offering, resilient to online retailing
- Maintaining high residential market share by offering high quality, affordable product
- Providing affordable options for retirees who want to remain active and engaged in the community

## Investing for the future

- Recycling capital from non-core assets into Retail, Residential and Retirement Living businesses

# Result reflects portfolio transition and weak residential market

| | FY12 | | FY11 |
|---|---|---|---|
| **Statutory Profit** | **$487.0m** | ▼ 35% | $754.6m |
| **Statutory Earnings per Security** | **21.1 cents** | ▼ 33% | 31.7 cents |
| **Underlying Profit**[1] | **$676.1m** | ▼ 7% | $726.3m[2] |
| **Underlying Earnings per Security** | **29.3 cents**[3] | ▼ 4% | 30.5 cents[2] |
| **Distribution per Security** | **24.0 cents** | ▲ 1% | 23.7 cents |
| **Net Tangible Assets per Security** | **$3.68** | ▲ 1% | $3.65 |
| **Gearing (D/TTA)** | **25.8%** | | 22.0% |
| **Return on Equity**[4] | **8.2%** | | 9.3% |

1. Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of the Directors, the ongoing operating activities of Stockland in a way that appropriately reflects its underlying performance. Underlying Profit is the basis on which distributions are determined. Refer to the Annual Report for the complete definition.
2. The basis for determining Underlying Profit for the Retirement Living business has been amended from previous periods to be more closely aligned to realised cash profits. As a result, the 30 June 2011 comparative Underlying Profit has been restated from $752.4m to $726.3m and Underlying EPS has been restated from 31.6 cents to 30.5 cents.
3. Using the previous method for Retirement Living accounting, FY12 EPS would be 30.1 cents
4. Return on Equity is a measure that accumulates individual business Return on Assets and incorporates the cash interest paid and average drawn debt for the period.

# Profit summary

| | FY12 | | | FY11 | Comments |
|---|---|---|---|---|---|
| Retail | 310 | ▲ | 8% | 286 | 3.8% comparable growth[1] |
| Residential Communities | 198 | ▼ | 15% | 233 | Margin pressure |
| Retirement Living | 36 | ▲ | 125% | 16[2] | Price, volume & margin growth |
| Office & Industrial | 219 | ▼ | 16% | 260 | Asset sales |
| UK & Apartments | 17 | ▼ | 41% | 29 | Last meaningful contribution |
| Unallocated corporate overheads | (50) | ▼ | 21% | (63) | Cost reduction initiatives |
| Interest, tax and other[3] | (54) | ▲ | 54% | (35) | Higher net interest expense |
| **Underlying Profit** | **676** | ▼ | 7% | **726** | |
| | | | | | |
| Commercial Property revaluations | 65 | | | 75 | Driven by income |
| Residential Communities impairments | (48) | | | (2) | As announced in May 2012 |
| Unrealised mark-to-market of financial instruments | (139) | | | 1 | No cash impact if held to maturity |
| Unrealised fair value adjustment of FKP | (56) | | | 4 | Lower share price |
| Other[4] | (11) | | | (49) | |
| **Statutory Profit** | **487** | ▼ | 35% | **755** | |

1. Post-AIFRS
2. The basis for determining Underlying Profit for the Retirement Living business has been amended from previous periods to be more closely aligned to realised cash profits. As a result, the 30 June 2011 Underlying Profit has been restated from \$54m to \$16m.
3. Includes Commercial Property trading, Commercial Property overheads, interest, tax and strategic stakes. Higher interest expense in FY12 due to increased gearing
4. Includes tax effect of adjustments, impairment of UK assets, FY11 fair value adjustment of Aevum stake, profit/loss on sale of Commercial Property assets, and realised movements on financial instruments (including GPT) and FX

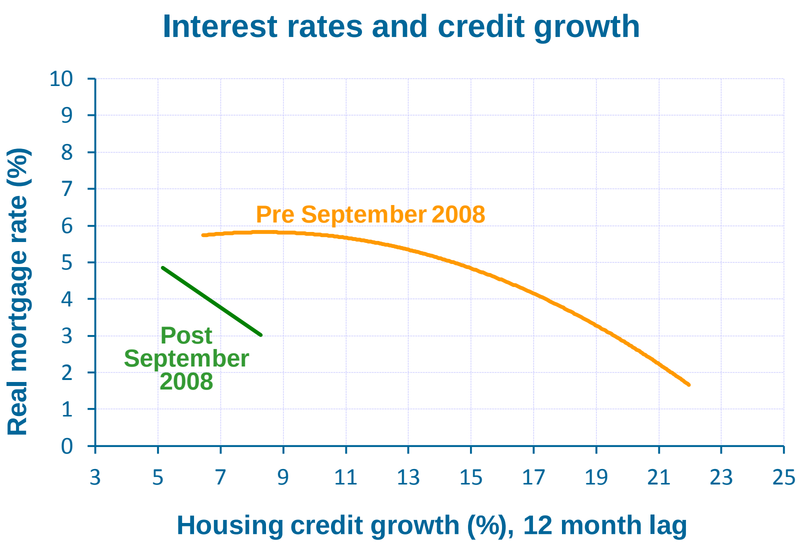
# Underlying EPS as advised in July 2012

| | | |
|---|---|---|
| March 2012 EPS guidance | 30.5 cents | |
| Retirement Living accounting change | (0.7) cents | |
| **May 2012 EPS guidance** | **29.8 cents** | |
| One-off restructuring costs | (0.3) cents | Additional benefits from FY13 |
| Fewer shares purchased in buyback | (0.1) cents | 2.5% still to complete |
| Timing of super lot settlements | (0.1) cents | Expect to settle FY13 |
| **Actual FY12 EPS** | **29.3 cents** | 30.1 cents under previous Retirement Living accounting methodology |

# This cycle is different and buyers are more cautious

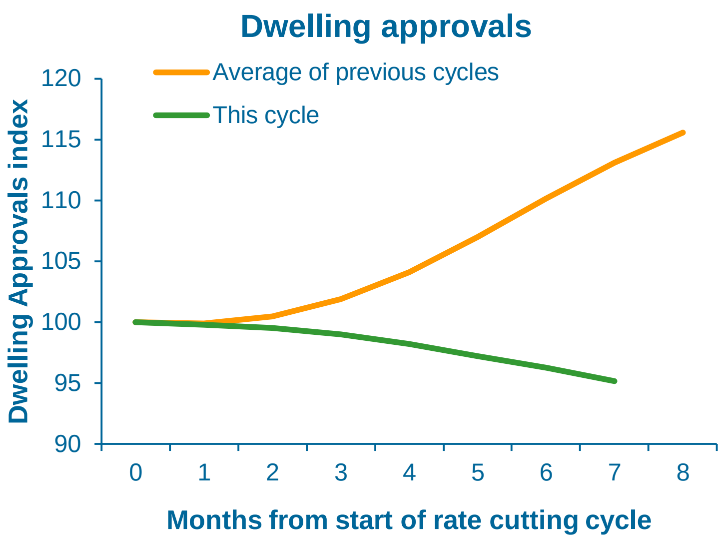
## Rate cuts are not encouraging borrowing…

- Pre-GFC, 2% interest rate cut resulted in a 10% increase in housing credit growth
- Post-GFC, the same interest rate cut has resulted in only 3% housing credit growth




## … or stimulating the housing market

- In previous cycles, dwelling approvals picked up within three months of rate cuts
- In this cycle, dwelling approvals have declined



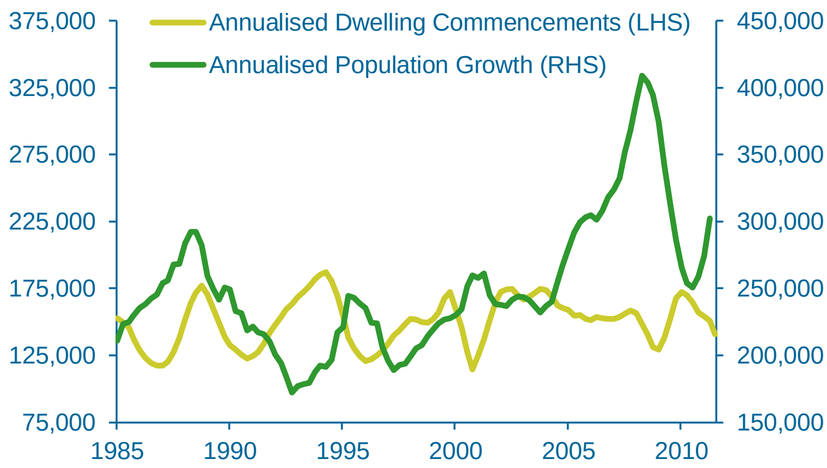

 Sources: Morgan Stanley, ABS, RBA

# Underlying residential fundamentals remain strong

## Strong population growth and low unemployment drive underlying demand

- Strong population growth, with bipartisan support for 180,000 immigrants p.a. (120,000 p.a. skilled workers)
- Growing number of 25-34 year olds – the peak household formation age group
- Unemployment rate low at 5.2%

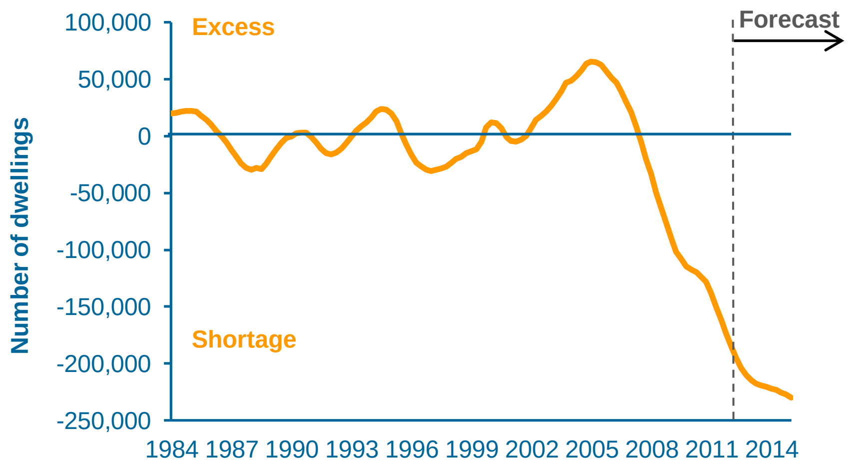
### Dwelling starts diverging from population growth




## The residential market is undersupplied

- Supply has been lower than underlying demand for some time
- Undersupply estimates range from 130,000 to 240,000 homes

### Market is undersupplied



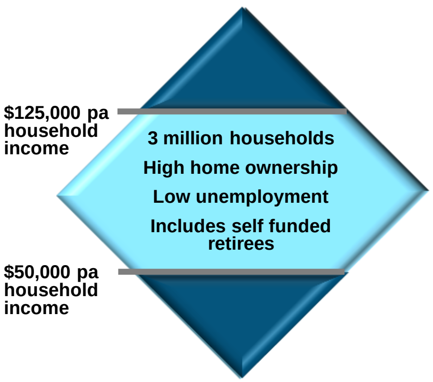


Sources: Goldman Sachs Global Economics, ABS, ANZ, National Housing Supply Council, BIS Shrapnel, COAG Reform Council, Westpac, UBS

# Integrated business sets us up well for the future

**Over 60% of our retail centres have Stockland Residential Communities and/or Retirement Villages within their trade areas**

## Similar customers




- Shared insights
- Tailored products and services

## Integrated projects

- Faster to market
- Stronger sales rates
- Happier customers

## Common processes

- Cost savings
- Efficient and effective delivery

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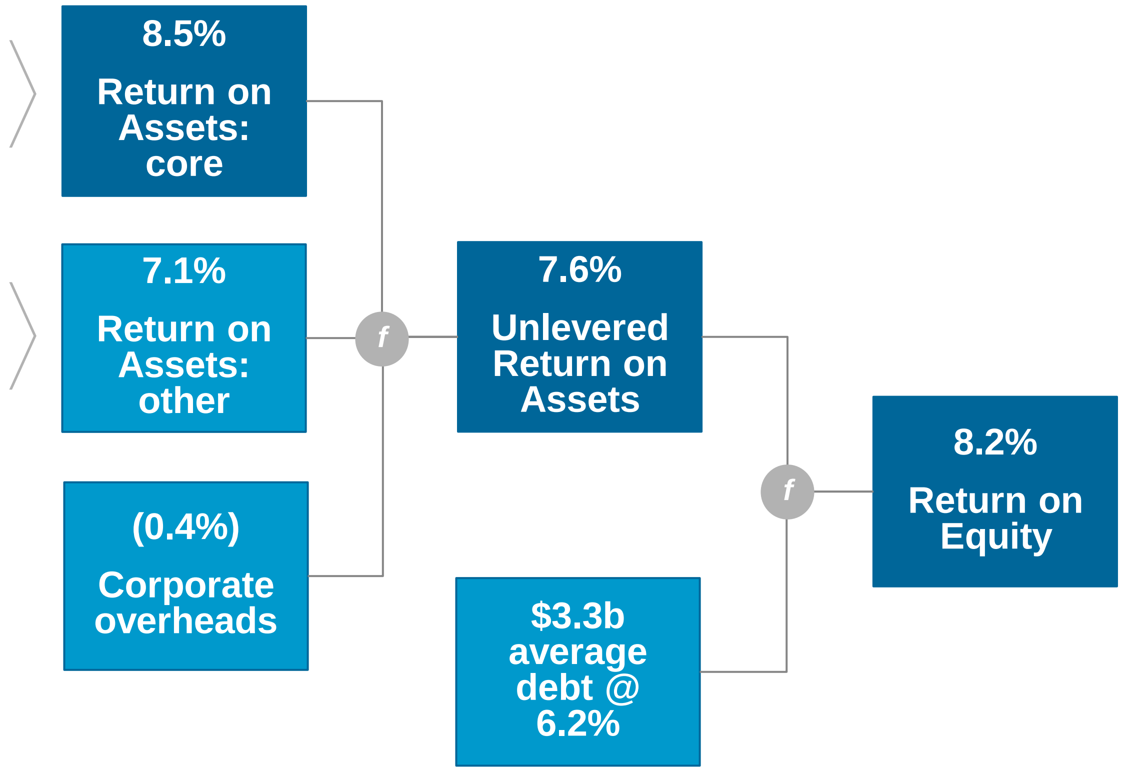
# Strong financial discipline is critical to delivering our strategy

| | Target | FY12 actual |
|---|---|---|
| ✘ **Strong EPS growth** | 5-6% per annum through the cycle | (4%) EPS growth FY11-12 |
| ✓ **Earnings resilience** | 60-80% recurring income | 73% recurring income |
| ✓ **Conservative gearing** | 20-30% D/TTA<br>Long-dated debt<br>Low weighted average cost of debt<br>High interest cover | 25.8% D/TTA<br>5.3 years weighted average debt maturity<br>6.2% weighted average cost of debt<br>3.8:1 interest cover |
| ✓ **Stable credit rating** | A-/stable | A-/stable |
| ✓ **Sustainable payout ratio** | Higher of 75-85% of Underlying Profit or Trust Taxable Income | 80% of Underlying Profit |

# Focus on improving cash returns

## Business unit return on assets[1]

| | |
|---|---|
| Residential | 11.3% |
| Retail | 8.0% |
| Retirement | 4.2% |
| Office | 7.4% |
| Industrial | 8.7% |
| Other[2] | 3.4% |




1. Business unit Return on Assets is cash profit returns (excluding the impact of non-cash elements such as capitalised interest, impairment release and lease incentive amortisation) divided by average cash invested for each asset class. More detail is provided in the Results Pack.
2. Other includes UK, Apartments, FKP stake and group working capital

# Initiatives are underway to increase returns

**Reduce inventory**

- Target $125m reduction in working capital

**Increase operational efficiency**

- >$20m gross annual overhead savings from FY12 initiatives

**Activate land bank**

- Plan to commence 16 new Residential Communities projects within three years

**Capital efficient acquisitions**

- Use options and deferred terms for Residential acquisitions
  - Currently control ~26,000 lots on capital efficient terms

**Sell non-core assets**

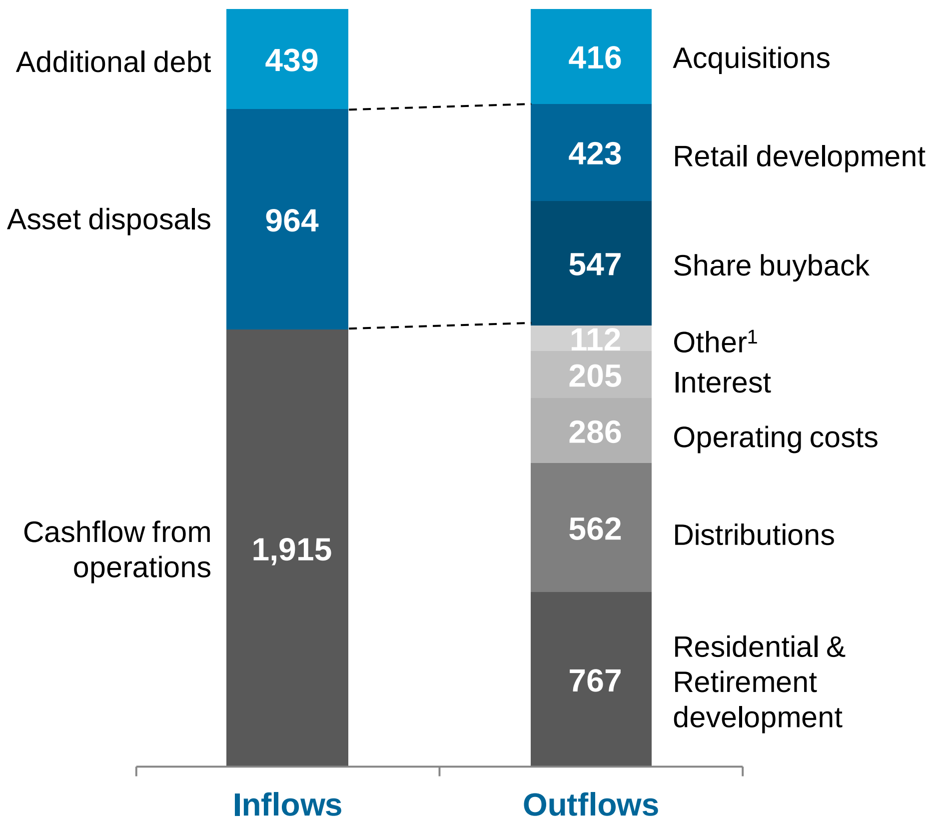
- Continue asset disposal program
  - Sold $964m in FY12 at 6.8% passing yield

**Extend share buyback**

- Continue to 10% then review
  - 7.5% buyback to date, delivering 1% earnings accretion and 2% NTA accretion in FY12; full year EPS accretion would be 2%

# Asset disposals funded retail developments and share buyback

## FY12 cash inflows and outflows
($m)




## FY13 outlook is for more balanced cashflows

- Ongoing operational efficiency improvements
- Continuing non-core asset sales, with $190m exchanged to date in FY13
- No major cash acquisitions planned
- Plan to continue share buyback to 10% and then review
- $210m to complete three major retail developments

1. Other comprises net Office & Industrial capital expenditure, UK expenditure and Property, Plant and Equipment

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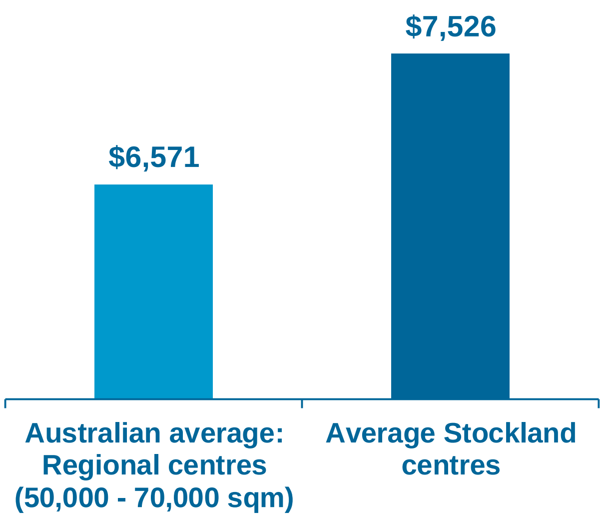
# Retail business delivered strong, stable returns

## Retail centres delivered good growth

- $310m NOI, up 8% due to acquisitions and developments coming on line
- 3.8% comparable NOI growth[1]
- 2.9% comparable moving annual turnover growth
- 381 operating leasing deals with 2.6% average rental growth
  - 5.4% on renewals
  - (2.3%) on new leases
- 342 project leasing deals
- 8.0% Return on Assets
  - 9.3% on stable assets
  - 4.1% on major development assets; will increase on completion from FY14

## Our centres are significantly more productive than industry benchmarks

**Shopping centre productivity**
(Turnover per sqm)



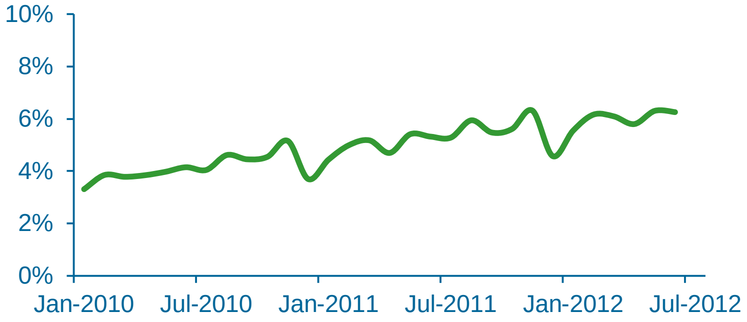



1. 3.8% post-AIFRS growth, 4.5% pre-AIFRS growth

# Responding to the structural changes in retail

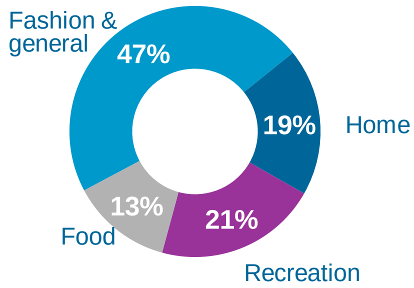
## Spending habits are changing

### Proportion of retail sales online is increasing



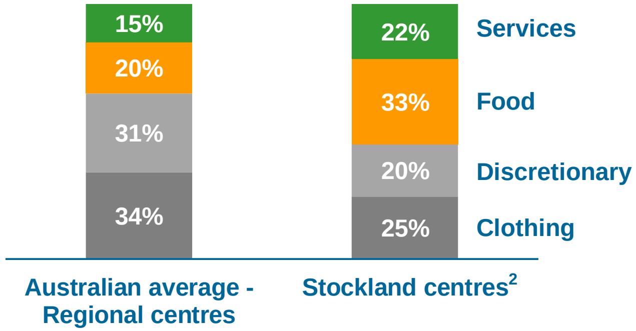

### Fashion is the largest online category

Share of online spend[1]

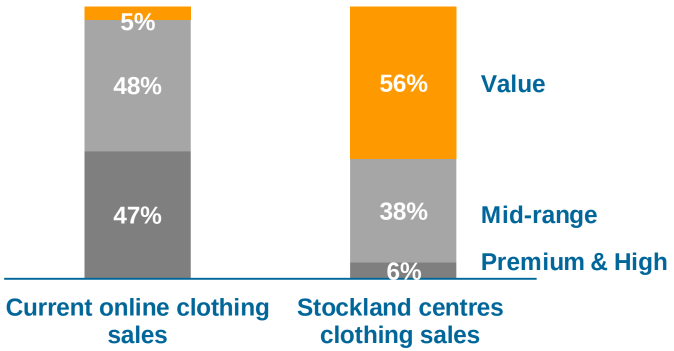



## We focus on value and convenience

### Our centres are weighted towards food and services




### Our specialty clothing retailers are "value" focused




1. "Fashion & general": Fashion, cosmetics, online auctions, department stores, variety stores; "Home": Home, furniture, appliances, electronics; "Recreation": Recreation, toys, games, hobbies, music, movies, books; "Food": Groceries, specialised food, liquor
2. Expected breakdown in FY14, after completion of Townsville, Shellharbour and Merrylands

Sources: Online analysis - Quantium and NAB Online Index. Regional centre metrics - Macroplan

# Investing for resilience and growth

## Expect our centres to remain resilient

- 75% of our centres are ranked first in the trade area by market share and/or productivity
- Our retail mix is heavily weighted towards non-discretionary spending, food and services
- Rents are sustainable with average 14.1% occupancy costs
- Centres are at 99.4% occupancy
- Specialty shop leases have growth locked in
    - 64% have 5% fixed annual increases, 17% have 4% fixed annual increases
    - 14% have CPI+ increases

## Will enjoy the full benefit of development expenditure in FY14

- Three major projects under construction
    - Merrylands: $330m spent , $65m remaining, 10.5% total IRR, FY13 completion
    - Townsville: $140m spent, $35m remaining, 14% incremental IRR, FY13 completion
    - Shellharbour: $220m spent, $110m remaining, 14.5% incremental IRR, FY14 completion

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# Continued the sale of non-core Office & Industrial assets

## Committed to maximising returns from our Office & Industrial portfolio

- $2.7b Office and Industrial assets remain on balance sheet
- Focusing on maximising rental income and asset value
- Disposal plan will take into account Stockland’s capital needs and market conditions

## $936m of Office & Industrial assets sold in FY12

- Sold at slightly above book value on average
- Average 6.8% passing yield and 9.3% IRR

## Outsourced management of the remaining portfolio

- Retained control of strategic asset management and leasing
- Reduced net fixed costs by ~$1.2m p.a.

## FY12 result impacted by asset sales and market conditions

- $142m Office NOI, with 0% comparable growth due to weak leasing conditions in Sydney
- $77m Industrial NOI, with 4% comparable growth

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# Residential Communities has demonstrated resilience in a soft market

## Achieved record settlements and steady prices

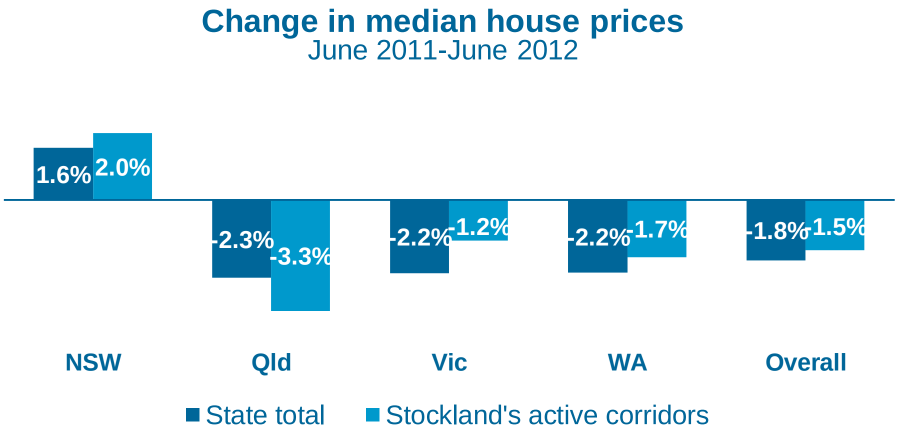
- Settled a record 5,388 lots
- Maintained flat "like for like" pricing in a declining market
- Target corridors outperformed the market
- Underpinned by high quality, affordable product

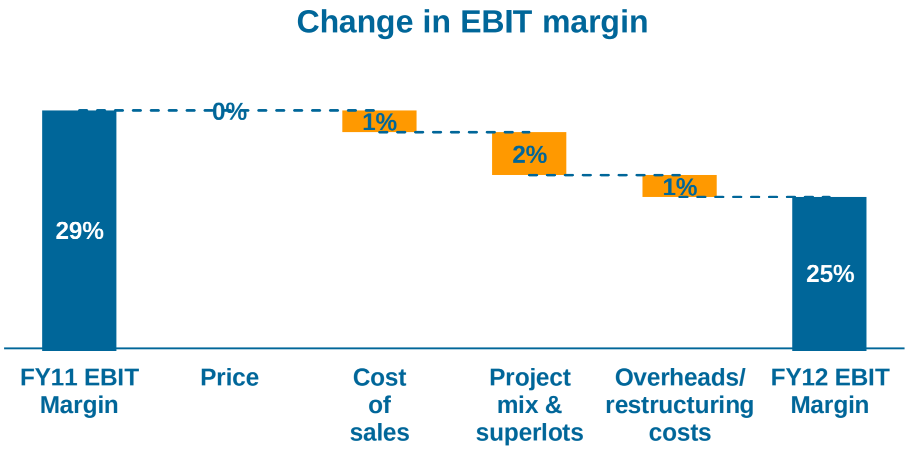
## Margins coming under pressure

- 25% EBIT margin, 18% Operating profit margin
- Costs increased in line with inflation
- Margins affected by changing project mix and lower superlot settlements

## Reasonable Return on Assets

- 15.9% on active projects[1]
- 11.3% on total portfolio




1. 15.9% Return on Assets on active projects, 20% on active non-impaired projects

Source: Australian Property Monitors

# Continue to deliver market leading residential communities

## Large, geographically diverse projects provide market reach

**Delivering ten of Australia's 20 largest projects**

- Highlands the number one project in FY12 by sales volumes
- Our top ten projects are geographically diverse
  - Two in NSW
  - Two in WA
  - Two in Queensland
  - Four in Victoria
- Launching five new projects in the next three years, which are expected to be "top 10" projects


## High quality affordable products enhance market share

**Deliver what customers value and what they can afford**

| First home buyers | Families |
|---|---|
|   |   |
| 3 2 1 | 4 2 2 |
| $294,970 | $344,500 |
| $36 per week less to buy than rent | Space for the family for less than the local median house price |

## Investment in communities underpins future returns

**Early investment in community facilities**

- Early delivery of facilities such as schools, shops and playgrounds
- Contributes to "liveability" for residents
- Enhances pricing and sales rates




Source: Charter Keck Cramer, National Land Survey Program

# Expect FY13 to be another challenging year

## FY13 has a lower starting position than FY12

- Beginning the year with 1,561 deposits, around 700 less than last year
- Majority of the difference is in Victoria, where FY12 was boosted by government stimulus

## Signs the market is near the bottom but recovery is likely to be slow

- Consumers remain very cautious and lack urgency
- Expect decline in first home buyers with re-emergence of upgraders
- WA showing signs of recovery, Qld and Vic are weak, NSW improving but low margin

## Margin pressure will remain

- Continued soft market conditions
- Fewer settlements from high margin Victorian projects
- Expect margins to be below 25% EBIT target in FY13

## FY13 is about investing for the future

- Launching 16 new projects in the next three years, including Caloundra South, Lockerbie, East Leppington and Marsden Park
- Projects require early investment in infrastructure and amenity in FY13, and will deliver settlements from FY14

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# Making good progress to improve Retirement Living returns

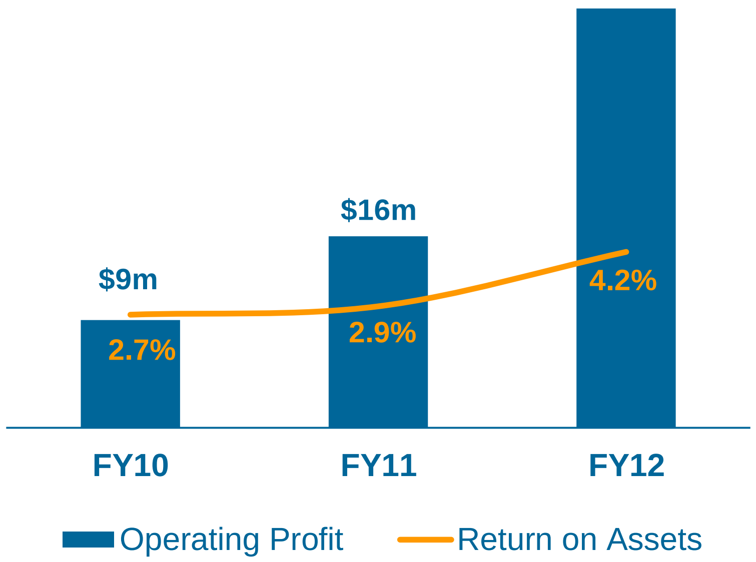
## Significant increase in revenue and profit

- $36m operating profit, up $20m from FY11
- Record number of settlements: 519 existing units and 268 new units

## Clear focus on cash returns

- Simplified Retirement Living accounting is more closely aligned with cash flows
- Return on assets increased from 2.9% to 4.2% in FY12

## Operating profit more than doubled in FY12[1]





1. Under the previous accounting method, Operating Profit would be $36m in FY10, $54m in FY11 and $63m in FY12

# Aim to be Australia's leading Retirement Living operator

## Full, happy villages

- Affordable to enter, affordable to live in
- Industry leading community centres
- Well run villages

- 94% occupancy
- 88% of residents satisfied or highly satisfied
- 26% of settlements from referrals

## Leveraging Stockland's capabilities

- Utilising Stockland's land bank
- Sharing Residential Communities' development capabilities and Commercial Property's asset management expertise
- Leveraging relationships with project home builders

- Higher margins
- Improved land efficiency
- 18% reduction in time to build

## Increasing investment returns

- Benefiting from economies of scale
- Continued organic growth
- Standardised entry-based DMF contracts

- 20% return on incremental spend
- Aim to double Return on Assets by FY17

# Well positioned for the future

### Retirement Living is a growing market segment

- Australian population aged 65+ is expected to grow by 46% by 2021
- Moving to a retirement village is a needs-based decision

### We have had a good start to FY13 but expect market conditions to remain challenging

- Over 200 reservations on hand
- 12 developments in four states
- On track to deliver over 300 new units in FY13, compared to 268 in FY12

### Cash returns will continue to grow

- Will drive Return on Assets through operational efficiency, improving occupancy rates and increasing development volumes
- Already own 90% of land required for the next five years production

# Agenda

# FY13 is a key year in our transition to higher returns

Today → Transition → Future

| | Transition | Future |
|---|---|---|
| **Retail** | • Complete key developments | Income and capital growth |
| **Residential** | • Continue to trade out of impaired projects<br>• Develop new, higher returning projects | Higher cash returns |
| **Retirement Living** | • Deliver development pipeline<br>• Improve operational efficiency | Higher cash returns |
| **Office & Industrial** | • Continue disposal program | Capital recycled into higher returning investments |
| **UK & Apartments** | • Complete wind-down | No contribution |

# Summary and Outlook

## Responding to the challenging market

- Continued focus on value and convenience saw us achieve solid Retail rental growth and record Residential and Retirement settlements
- Streamlined the business for efficiency

## Continue to manage prudently and appropriately

- Clear focus on cost and capital management
- Strong balance sheet with low gearing
- Flexibility in the rate at which we sell non-core assets, buy back shares and invest in developments

## Expect FY13 to be a difficult year

- Business in transition as we position ourselves for growth in FY14 and beyond
- Ongoing residential market headwinds
- FY13 EPS likely to be lower than FY12 unless residential market significantly improves

## EPS will improve in FY14 as new Residential and Retail projects come on line

- Expect to maintain FY13 DPS at 24 cents, even if above our 75-85% target ratio, reflecting improved FY14 outlook

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