LENDLEASE
2023 FULL YEAR RESULTS TRANSCRIPT

14 August 2023

TONY LOMBARDO – GLOBAL CHIEF EXECUTIVE OFFICER:

Good morning and thank you for joining the Lendlease 2023 full year results presentation. I'm Tony Lombardo, Global Chief Executive Officer and Managing Director of Lendlease.

Joining me today is Simon Dixon, Global Chief Financial Officer. Sitting here at Barangaroo in Sydney, we are on the land of the Gadigal people and I extend my respect to their Elders past and present.

Firstly, I'll provide an update on our five year turnaround strategy followed by an overview of our FY23 results. Simon will then walk through the financials before handing back to me for the outlook. Then we'll open up for questions.

Starting on slide 4. We've just completed the second year of our five year turnaround plan to transform Lendlease into a leaner, more focused Investment-led company. I'm pleased to say we're making good progress.

With $1.3 billion of strategic divestment since FY22 already completed and the potential for further capital partnering through processes underway, we're simplifying our business. Since our strategy was rolled out, FUM has grown by 22per centper cent to $48 billion with a strong pipeline of new products and mandates.

Consistent with our Investment-led strategy, we're prioritising creating investment product from our existing development pipeline. We're adopting capital efficient project structures that support a high sustainable rate of production while reducing overall capital requirements of our development business.

We've reviewed the risk profile for our construction business, particularly for residential work. We'll no longer build apartments for sale for third parties given the longer tail risk. Separately, we'll no longer build external projects below $150 million.

We've achieved more than $170 million in cost savings from the reset phase of our strategy. And post year end, we initiated a further 10per centper cent reduction of our global workforce. This difficult but necessary measure is expected to realise pre-tax savings in excess of $150 million per annum in future years. It also delivers the leaner operating structure consistent with our Investment-led strategy.

Against the backdrop of multiple interest rate increases, inflationary pressures, particularly impacting the construction sector, and challenging market conditions across our regions, Lendlease continues to execute on its strategy. And I believe remains well positioned as we begin to emerge from a period of uncertainty.

Moving to slide 6. We've continued to build on our turnaround plan with good progress across our operating segments. Since launching our Investment-led strategy, we've achieved double digit compound growth in FUM. In FY23, we delivered 9per centper cent net FUM growth.

We created $5.3 billion of new FUM products, including $1.4 billion from our 21 Moorfields acquisition in London which is 100per centper cent leased to Deutsche Bank on a 25 year term, and $900 million from our Milano Santa Giulia mandate in Milan. We have $6 billion of FUM product in delivery and we have $4 billion of committed third party capital to invest in coming years.

In Development, commencements were $7.7 billion for FY23, pushing work in progress to $22.9 billion. This includes our first two build to rent projects in Australia with partners QuadReal and Daiwa House, bringing our international capability in this sector to the local market.

Development completions remain cyclically low at $3.6 billion. While improving on prior year, they've yet to fully recover from lengthy pandemic related commencements and delivery delays.

We saw strong sales momentum across our new development, One Circular Quay, which is more than 50per centper cent pre sold by value, nearly $1.3 billion in sales. And One Sydney Harbour which is approximately 90per centper cent pre sold or $3.8 billion in sales across the three towers.

In Construction, our business performance was subdued in the face of supply chain difficulties, high inflation, and subcontractor collapse. As I mentioned earlier, we've taken steps to better manage long tail risks within our work book.

We continue to be a leader in sustainability, with a further 18per centper cent reduction in our scope 1 and 2 emissions and we're approaching 75per centper cent of our FY25 250 million social value target.

We also strive for best practice within health and safety against key metrics. Tragically, a subcontractor died this year on a site not under our control. We remain resolute to further strengthen global safety measures, including with our subcontractors.

While right sizing the business, we continue to invest in and support our people. Pleasingly, despite difficult conditions, our global employee engagement score increased by four percentage points.

Moving to our financial performance in slide 7. The Group has delivered a resilient operating performance against a difficult market backdrop. The Group recorded a core operating profit after tax of $257 million for the year, down 7per centper cent.

Core operating earnings per security were $0.373 with a return in equity of 3.8per centper cent. The distribution of $0.16 per security is consistent with the prior year and represents a payout ratio of 43per centper cent.

Disappointingly, we recorded a statutory loss after tax of $232 million after taking the provision of $295 million to address the industry wide retrospective action by the UK government in relation to residential building remediation. The estimated provision has increased by $95 million on the half due to additional information being obtained and market cost increases. The provision does not include anticipated recoveries from third parties.

Also contributing to the statutory loss is a $175 million downward revaluation of our property investments. This is broadly in line with movements across our markets.

Moving to slide 8. Our Investment-led strategy remains on track. Our investment portfolio continues to grow, increasing 13per centper cent with a 60per centper cent capital weighting targeted by FY26. Our Development segment has a pipeline of $124 billion, including work in progress [WIP] of $23 billion. We expect $8 billion of completions in FY24 subject to market and operating conditions.

In Construction, we reported a strong top line result but a more subdued performance given industry headwinds and provisions taken against prior projects.

Moving now to slide 9. Investments segment EBITDA of $332 million was down on the prior year which benefited from a number of significant transactions. The Investments segment generated a return on invested capital [ROIC] of 6.1per centper cent. Gains from the sell down of the military housing asset income stream were partially offset by a $47 million [should have stated $74 million] provision for a receivable relating to the FY21 sale of the Americas telecommunications business, with the provision reducing ROIC by 1.2 percentage points for FY23.

FUM and AUM both gained 9per centper cent for the year.

Our investment portfolio delivered EBITDA of $228 million which included the further sell downs of the military housing.

As referenced, performance was impacted by $74 million provision relating to the FY21 disposal of the Americas telecommunication business.

Looking at the underlying performance of the investment portfolio, which excludes the benefit of transactional gains and offsetting provisions, the investment distribution yield was 3per centper cent, down from 4.7per centper cent.

This was impacted by the deployment of capital into new products that are yet to fully yield, such as 21 Moorfield and Real Estate Investment Partners 4, our commercial value add FUM. Rising interest costs also impacted returns for the year.

Turning now to Development on slide 10. The segment delivered EBITDA of $283 million, up 56per centper cent, and a return on invested capital of 3.3per centper cent.

The result was led by the Australian region, benefiting from the management refresh and operational reset undertaken in FY22.

Workplace assets, Sydney Place and Blue & William were key completions, alongside City Lights Point at Elephant Park in London, which delivered both build-to-rent and build to sell-product.

Key commencements include One Circular Quay in Sydney, Habitat in Los Angeles, a mixed use build to rent and office project, and Hayes Point, an apartment for sale and boutique office project in San Francisco.

Following completion of key sub-structure works, Hayes Point was recently paused pending further de-risking through either tenancy commitments or capital partnership.

We're accelerating delivery of our existing pipeline while focusing origination efforts on restocking Australia and select Asian cities.

Current development capital of $6.1 billion represents 60per centper cent of the Group's investment and development capital which is expected to be reweighted towards 40per centper cent. We'll seek to balance commencements and completions through the cycle to target an annual WIP above $20 billion.

For FY24, we expect completions in excess of $8 billion, underpinned by key projects such as One Sydney Harbour, Tower One, and The Exchange TRX, Southbank, and Elephant Park.

Moving now to slide 11 on Construction. The business delivered a subdued performance this year.

Revenue at $7.2 billion for the year grew 9per centper cent, led by Australia with 16per centper cent growth. New work secured was also supported by Australia and the Americas. The business continues to prioritise an appropriate risk reward outcome over growth. Looking ahead, a preferred workbook of $9.9 billion provides confidence in future revenues supported by a focus on government clients, including social infrastructure and defence, complemented by select work for corporate clients.

We expect our earnings quality to improve in the longer term given the changes we've made to the risk profile of the segment.

I'll now hand over to Simon to talk through the financials.

SIMON DIXON – GLOBAL CHIEF FINANCIAL OFFICER:

Thanks, Tony, and good morning, everyone. Turning now to our financial performance on slide 13.

Core segment EBITDA of $705 million was down 13per centper cent, impacted by lower Investments and Construction contributions, partially offset by improved Development earnings.

The Investments segment delivered EBITDA of $332 million, down 33per centper cent, with a reduction from the sale of portfolio assets and associated earnings, together with a receivable provision of $74 million relating to the sale of our Americas telecommunications business in FY21. The results include $192 million of transaction gains from a further 34per centper cent sale of our military housing asset management income stream. Last year's result, as a reminder, included a $167 million gain from the sale of 28per centper cent of these rights.

Development EBITDA improved by 56per centper cent. The Australian Communities business generated $142 million of EBITDA. While there were some delays in obtaining authority approvals, settlements during the year increased by 52per centper cent. Rising interest rates impacted by sentiment, leading to a 43per centper cent decrease in sales. However, we did record an improvement in the final few months of the year.

Our Asian business also contributed to the improved result. With the Exchange TRX retail outlet in Kuala Lumpur recording a gain of $60 million, with the asset now 87per centper cent leased, as it nears completion.

Construction EBITDA of $90 million was impacted by industry headwinds and provisions relating to prior projects in the UK and Americas, amounting to $53 million. The EBITDA margin was 1.2per centper cent, with these provisions reducing the margin by 0.8 percentage points.

Corporate costs were lower, down 11per centper cent to $161 million, reflecting a leaner head office function.

Net finance costs benefited from a $63 million pre-tax gain on the partial buy back of our sterling denominated bonds. Excluding the buy back, net finance costs would have been $151 million, reflecting higher average net debt and higher average rates.

Our tax expense was lower at $59 million due to lower operating profits and also a higher proportion of profits being derived from the trust.

Core operating profit after tax of $257 million was 7per centper cent lower.

The Group reported a statutory loss after tax of $232 million, including a $295 million provision in relation to UK building remediation, losses on property revaluations of $175 million in the investment segment and a Non-core loss of $19 million, reflecting overhead costs associated with managing the retained elements of the Engineering and Services business.

Moving now to net debt on slide 14. The increase in net debt from $1.1 billion at FY22 to $2.4 billion at year end includes $2 billion of growth capital deployed across Investments and Development, comprising the co-investment spent under investments One Circular Quay, One Sydney Harbour, and TRX, and other net expenditure.

Investments capital recycling includes the partial sale of the Military Housing asset management income stream, the Craigieburn retail asset, and the sale of industrial assets.

In the Development segment, there was a further $0.6 billion of PLLACes transactions, bringing forward apartment settlement revenues for One Sydney Harbour.

The net outflows from construction, Non-core, interest, tax, and other was $0.5 billion.

The Group will continue to balance its capital and liquidity positions to support growth while prioritising balance sheet strength and flexibility.

Turning over to slide 15. Invested capital for the year increased $1 billion to $9.1 billion, with $0.3 billion of net capital deployed to support Investments and $0.7 billion of net capital to fund Development production.

Other capital includes construction, which benefits from negative working capital, and also non-core.

Integral to our strategy is the proportionate reduction of Development capital over time while reweighting to investments. To achieve this, we are pursuing a number of initiatives, such as employing more capital efficient project structures by bringing capital partners in early, exploring capital recycling opportunities within our portfolio, and reviewing the potential to monetise land entitlements where the end use will not deliver FUM to our Investments business.

As we rebalance capital from Development to Investments, we will also seek to rebalance capital into Australia. With the current capital weighting of 31per centper cent being below our 40per centper cent to 60per centper cent long-term target.

Moving to slide 16. Liquidity of $2.6 billion remains strong, comprised of $900 million of cash and cash equivalents, and $1.7 billion in available undrawn debt.

Our debt hedging strategy is well-positioned, with average drawn debt maturity of 4.4 years, and fixed debt at 64per centper cent, each decreasing due to the further utilisation of floating rate facilities in the year, and the partial buy-back of long-dated Sterling bonds as part of Treasury's capital management initiatives.

In addition to strong capital and liquidity management, the Group has a number of additional pools of capital available to it, providing balance sheet flexibility, including further strategic capital recycling and place of instruments.

Now moving to slide 17. Following the successful cost reduction program in FY22, the Group has implemented a further cost saving initiative to reduce its global workforce by approximately 10per centper cent.

The headcount reduction is expected to have minimal impact to the timing of project delivery and development completions. With a focus on the removal of management layers outside of projects, and a reduction in offshore origination teams.

Notably, the Investments segment and growth in FUM are not expected to be impacted by the changes.

A core operating profit benefit of approximately $60 million pre-tax is expected in FY24, and $150 million per annum when full run-rate savings are achieved.

Turning to slide 18. We will continue to use the Portfolio Management Framework [PMF] to support our ambition to become Investments-led, and will apply the PMF to the assessment of internal investment and project decisions.

The PMF targets, including segment ROICs, continue to reflect though-the-cycle targets, rather than being guidance.

We will continue to focus on capital reallocation by region and segments, in line with PMF targets, and we will reweight capital from offshore to onshore and from Development to Investments.

I will now hand back to Tony.

TONY LOMBARDO – GLOBAL CHIEF EXECUTIVE OFFICER:

Thanks, Simon. Turning to slide 20. We are on-track to become an Investments-led Group.

Our FY22 Reset phase began to simplify the business with a new management structure to drive the integrated approach.

We have already seen meaningful wins from this new structure. Including 21 Moorfields London, Comcentre Singapore, and One Circular Quay Sydney.

Importantly, we have set the direction of accelerating development with a focus on FUM generating assets - this will be the primary driver of Investments as we seek to grow FUM to $70 billion by FY26.

We are further simplifying the business with strategic capital partnering processes underway, and more than $150 million per annum of anticipated future cost savings.

We have achieved strong FUM growth, and have more than $6 billion of future secured FUM in delivery, and more than $4 billion of committed capital from our investment partners to deploy.

We have a framework for delivering appropriate risk-adjusted earnings in construction as we move forward.

We are in a solid financial position with balance sheet strength and flexibility to execute our plan, while being prudent as we progress our strategy.

Turning now to our final slide, the FY24 outlook. The Group is guiding a return on equity at the lower end of our 8per centper cent to 10per centper cent range.

We've identified some of the key drivers of our operating segments for FY24.

For investments**,** we expect to see continued FUM growth, in line with recent performance, having achieved 9per centper cent growth this year, and 10per centper cent annually since the commencement of our strategy. We also expect to see our investment yield begin to improve as investment assets stabilise. We will continue to

explore capital partnering opportunities that are in the best interests of our securityholders.

For Development, we anticipate more than $8 billion in completions. Including key urban projects such as Residences One of One Sydney Harbour, and a further recovery in communities settlements. We are also exploring potential capital partnerships in FY24 and land sale opportunities within our urban development pipeline.

In Construction, we expect margins to improve. We also expect realisation of backlog revenue to be in line with historical rates, supported by additional new work secured.

Finally, our new cost savings initiatives are expected to deliver approximately $60 million in pre-tax savings in FY24.

Thanks, and I will now open up for questions.

Operator: Thank you. If you wish to ask a question please press star-one on your telephone and wait for your name to be announced. If you wish to cancel your request please press star-two. If you are on a speakerphone please pick up the handset to ask your question.

Your first question comes from Sholto Maconochie with Jefferies. Please go ahead.

Sholto Maconochie: (Jefferies, Analyst) Oh, hi Tony and Team, thanks for your time. Just a couple on the result. I'm just wondering, I know there's a focus on improving earnings quality, well why you took the bond buy-back above the line in the result, because it would have been – adjusted for tax the result would have been 17per centper cent lower. I'm just trying to understand why you did that?

Tony Lombardo: Well, Sholto, just on the bond buy-back, it was part of our capital management in terms of how we're financing the Group. The buy-back has been included through our financing costs, and it was taken through the above the line.

Simon Dixon: Yes, if I can just add, Sholto, the below the line is very much limited to property revaluations within the Investments segment and some material non-operating items that couldn't have been reasonably foreseen. Buying back debt doesn't fit that definition. It is something that we'll do from time to time. Not all that common, but it's something that we would expect to do as part of our active capital management.

I would go on to say that I think it was – our markets were very favourable, and we felt economically it was clearly the best thing to do for our securityholders at the time.

Sholto Maconochie: (Jefferies, Analyst) Okay, and then just on the balance sheet. The PLLACes was done just in the last week of June. So the gearing would have been circa 400 bips higher. Was that needed? Otherwise you'd be closer to the 20per centper cent gearing target. What was the rationale, given that it's a pretty good project with minimum default risk? Why were the PLLACes implemented just before year end?

Simon Dixon: I think the delta is about 3per cent, not 5per cent. So wouldn't have been anywhere near the 20per cent. It wasn't needed at year end. It was something which was actually in plan throughout the year, and it was just the fact that it was executed very close to year end was just really a matter of the time needed to finalise documents, price, build the book, and execute. So there was nothing that wasn't well-planned. In fact that had been under discussion and in planning for a number of months.

I would say that the bond buy-back as well, to be very clear, had been under discussion and planning for about six months prior to executing the transaction.

Sholto Maconochie: (Jefferies, Analyst) All right. Then just onto FY24 and we'll move onto the forecast. You haven't given any targets for ROIC for Development or construction margins and Investments ROIC. What are they expected to be this year, in '24?

Tony Lombardo: Just what we have now done is, Sholto, move back to guidance on our ROE. For the last couple of years where we were not tracking to be in our ROE target we provided more colour and guided the mark on our PMF segments and where we anticipate. I think what you should now look at going forward, those PMF targets are the guides on how we manage the portfolio and manage the business.

The key things I called out on that outlook which gives – to give the market confidence in how we're going to be performing is firstly we called out in Development, which has been the key segment that's underperformed our target. We feel we are back on track to deliver the $8 billion-plus in completions. So that's what the market should be expecting.

It should be expecting that the Group will have a better settlement level in Communities, and we are looking at various partnership joint venture transactions that are well underway. I think on construction we have flagged that this year our margin was compressed in Construction and delivered 1.2per cent. That was off the back of a couple of key things we took as provisions against prior projects in the UK and US. We believe the market should be looking at us getting back in our target range there of 2per cent to 3per cent.

Sholto Maconochie: (Jefferies, Analyst) Then if you just take the Development that is more than doubling completion. So you should – I mean, but you should be within your target range on ROIC given you've paused Van Ness cost out. Would it be fair to say the Development ROIC should be in the range this year?

Tony Lombardo: Well, I think what the market should now do is anticipate looking at our targets at that 10per cent to 13per cent. We have built the plan predicated on getting back within our target ranges that we have set ourselves in our PMF target.

Sholto Maconochie: (Jefferies, Analyst) Right, and just finally. There's a few activists on the register looking white papers and proposing sell-down all of Communities and

Non-core businesses. How much engagement do you have with them, and were you willing to sell all of Communities down? Or just bring in a JV partner still?

Tony Lombardo: Look, most importantly, I talk to all our securities all the time – all our securityholders all the time. I mean it's important to get everyone's perspective. I've seen a couple of white papers come out. I mean I think the papers that have come out actually align to the strategy we set out a couple of years' ago. So that's quite pleasing to have that support by new securityholders, from my perspective.

I think the key for us is we are very focused as a management team on executing the strategy. We will continue to really focus on some of the things that we have called out that we have got processes under way, and aiming to execute over this coming 12 months.

Sholto Maconochie: (Jefferies, Analyst) All right, great. Thanks so much for your time, Tony, appreciate it, thank you.

Tony Lombardo: Thanks, Sholto.

Operator: Your next question comes from Tom Bodor with UBS. Please go ahead.

Tom Bodor: (UBS, Analyst) Good morning Tony and Simon. I just wanted to ask about Van Ness. Obviously you're pausing it subject to sort of a pre-commit. But just be keen to understand how much capital you have invested in that project to date, and sort of what's the risk around an impairment if you can't de-risk it in the next couple of years?

Tony Lombardo: Yes, I think – thanks, Tom – on Van Ness, which we have now, the Team's relabelled to Hayes Point. I think we have circa around about $260 million in capital in the ground on that project.

Tom Bodor: (UBS, Analyst) Is that US dollars, or Australian dollars?

Tony Lombardo: Australian dollars.

Tom Bodor: (UBS, Analyst) Okay, yes.

Tony Lombardo: In terms of the pause, what we want to make sure if we do de-risk it. From our perspective two things. We have called out, importantly we would love to be able to secure a tenant for the project in terms of the office component. Or we will make sure we have got a capital partner. So until we get one of those two things to come to fruition, we won't restart. From a capital perspective, we still see good returns in that project. So we don't feel at the moment there's any risk of impairment.

Tom Bodor: (UBS, Analyst) Okay, thanks. Then just around the Communities piece. Firstly, you mention a partnering. Is an outright sale off the table? Second part to that question is, do you anticipate a profit on that could be required to get you to the 8per cent ROE that you've guided to?

Tony Lombardo: Yes, so Tom, on the process, we have got a number of different options available to us. There have been offers for 100per cent, and there have been offers for a joint venture. What most importantly we are factoring in as both management and Board, is making sure we get the right economic outcome for our securityholders that captures the best value for the organisation. So that's the priority that we are placing on how we are assessing the different things that are on foot.

We are anticipating some profits to come out of the transaction we do do. We are factoring that into our FY24 numbers.

Tom Bodor: (UBS, Analyst) Okay, so just to be clear, profit on sale for the Communities would help you get to the low end of the range, as in if that wasn't there it could be below?

Tony Lombardo: Yes, there are some profits that we are anticipating to come through on the transaction that we have on foot for FY24.

Tom Bodor: (UBS, Analyst) Okay, thanks. Then just a final one, just was interested in just the level of overhead across the Development platform globally. How that changes with Communities, if you sell the whole piece over time?

Tony Lombardo: I don't have the specific numbers on hand. But what we have now done is, as an organisation, we did announce the cost-out program which will deliver another $150 million of savings for the rganisation. Half of that will come out of overhead, and half of that is going to come out of cost-of-sale.

What we did last year is spend a bit of time on Communities getting the business self-contained and running as a Team. I think offhand we are probably spending circa $30 million-odd or the like in terms of overhead. But we can come back with an exact answer for you there, Tom.

Tom Bodor: (UBS, Analyst) Okay, fantastic. Thanks very much.

Operator: Your next question comes from Ben Brayshaw with Barrenjoey. Please go ahead.

Ben Brayshaw: (Barrenjoey, Analyst) Yes, hi, I was just wondering if you could just give an update on TRX retail and the $60 million taken to EBITDA, if you could just clarify whether that is cash-backed and just what the situation is there in terms of a pathway to realising the cash profits please?

Tony Lombardo: Yes, no, thanks, Ben. In terms of TRX, we are sitting today at over 90per cent leased and under final negotiations. We are getting the centre, the retail component of that and our development ready for opening this financial year. The profits that were realised are based on the risk-reward and the valuation uplift that

comes with the progress on leasing that we made over the last 12 months. I think the leasing is up some 30per cent-odd-plus over this last 12 months.

At this point it isn't cash-backed. What we will be anticipating is using that asset to be the cornerstone of either a new fund, or go into an existing fund structure that we have on foot.

Ben Brayshaw: (Barrenjoey, Analyst) Just in relation to Moorfields, could you just clarify, has the economic interest this last six months increased? It seems like it's up to 50per cent. Just in relation to the carrying value, the carrying value is up about 10per cent. So could you just discuss what has happened there over the last six months?

Tony Lombardo: Yes, so on that transaction we are only – oh, out of that fund project we are only 25per cent. So we do have TCorp, one of our key investors, who owns 50per cent. We have got another key Asian investor who owners 25per cent. I think if there's a movement it most likely relates to FX movement, Ben. But we can clarify that later with you. But that's what I think the shift was.

Ben Brayshaw: (Barrenjoey, Analyst) Oh, sorry, I'm just referring to slide 16 where it says, co-investment percentages 50per cent, and at the first half it said 25per cent.

Tony Lombardo: Let me come back. I think that may be an error.

Ben Brayshaw: (Barrenjoey, Analyst) No problems. We can discuss offline. Thanks, Tony.

Operator: Your next question comes from Simon Chan with Morgan Stanley. Please go ahead.

Simon Chan: (Morgan Stanley, Analyst) Hi, good morning Tony, good morning Simon. My first question, I just want to circle back to Tom Bodor's earlier question to make sure I didn't mishear your answer, Tony. On the Communities sale, are you – did you say

that you have factored in a gain on sale off that business in your 8per cent to 10per cent ROE guidance for FY24?

Tony Lombardo: Simon, that is what I said. We are assuming that we will deliver some profit from that transaction and we have factored that into the 8per cent to 10per cent ROE.

Simon Chan: (Morgan Stanley, Analyst) I assume you're not going to tell me the quantum of what you've factored in, are you?

Tony Lombardo: No, I'm not because we have got commercial transactions on foot. So it really depends on where we land.

Simon Chan: (Morgan Stanley, Analyst) Can you confirm for me that book value of that Communities business at present then?

Tony Lombardo: I think the book value is circa $1 billion to date.

Simon Chan: (Morgan Stanley, Analyst) Excellent. I was wondering if either of you guys could just give some I guess general colour on capital partnering and what appetite is like at the moment? I mean obviously you guys have hit the pause button on at Hayes Point. You mention potentially something could happen at TRX. Just what the appetite is at the moment? Are people still a bit apprehensive about buying development projects, buying space in development projects, et cetera?

Tony Lombardo: Yes, look, I think pleasingly over the last 12 months we did launch some $7.7 billion of commencements. Most of the things that we have launched, with the exception of Hayes Point, has actually had the backing of capital partners. So in the last six months we have launched our first build-to-rent projects in Australia, one with Daiwa House, one with QuadReal. So there's still appetite in the segments around build-to-rent.

When it comes to the One Circular Quay deal that we did, we brought Mitsubishi in for 67per cent, and one-third with Lendlease. So there's definitely appetite for the right developments that show the right risk profile and are in the right asset classes. More broadly, I think when I'm talking to investors there's a couple of things. They're very much focused on waiting for inflation to start to come back, getting close to our normal ranges in our core markets and we're starting to see inflation come back into that right target range. I think interest rates, again, people were wanting some certainty on where interest rates were getting to from a perspective before they're ready to pull the trigger. Those two factors, ultimately, determine costs in terms of production costs to build out product. Also, the interest rates will, ultimately, provide a bit of a guide on longer-term risk-free rates and cap rates.

So, in terms of sectors still getting strong interest around value add, I think that's a key area. I think build-to rent continues to be in high demand and I think sustainable office product that shows the right product attributes is still there. I think what we are seeing is, probably the next six months, there's a lot of capital sitting on the sidelines and I think that capital is now looking to be a bit more active. So, I think as we're starting to peak in inflation and interest rates, I think there's an appetite that's increasing going forward from this point.

Simon Chan: (Morgan Stanley, Analyst) Sounds good. Thanks, Tony. Cheers.

Tony Lombardo: Thanks, Simon.

Operator: Your next question comes from James Druce with CLSA. Please go ahead.

James Druce: (CLSA, Analyst) Yeah, good morning, Tony. Good morning, Simon. First question, just around the cost out. Do you guys hit your ROE targets without that cost out?

Tony Lombardo: So, James, on FY24 in that guidance page what we stated was we anticipate to see about $60 million of that benefit come through in FY24. That's pre-tax and that's factored into our FY24 guidance.

James Druce: (CLSA, Analyst) Yeah, okay. Even without that, though, would you be hitting your ROE guidance or not saying?

Tony Lombardo: I'm not going to comment there. What we have done is provide guidance…

James Druce: (CLSA, Analyst) Okay.

Tony Lombardo: …that we will come into that.

Simon Dixon: It wouldn't go into that level of specificity but, certainly, the cost out exercise or the announcement was one that was a necessary announcement, really a necessary measure to align the operations, certainly in the offshore markets, and to reflect what we're doing around origination and the reduction in origination in Development. Not linked specifically to achieving a notional target in FY24.

James Druce: (CLSA, Analyst) Can you talk to some of the big lumps of cash that are coming in this year? Obviously, there's Communities sitting out there, but how much are you going to bring in from Barangaroo and anything else that we should be thinking about?

Tony Lombardo: I think the big one you should think through, which is going to occur in the second half, is Barangaroo Tower One and that cash flow will come in at about $700 million from that. When you factor in that we've already got PLLACes on that transaction, so it's a big one, and there's other initiatives that we've got on foot. I think the big one is, people should realise this year we've got $8 billion of completions coming through. Some of those will be assets that we'll either move into our Investments

segment that would prioritise into fund products or assets like I've called out, being Barangaroo Tower One, The One Sydney Harbour is a build to sell asset. Of course, we will start to realise value and we'll start to see more of that occur in future years as we're now getting back to a more steady level of completions, closer to our $8 billion target moving forward.

Simon Dixon: James, perhaps I'll…

James Druce: (CLSA, Analyst) Can I just clarify–

Tony Lombardo: Sorry, go, James.

James Druce: (CLSA, Analyst) I just wanted to clarify whether that $700 million was net of PLLACes ?

Tony Lombardo: Net of PLLACes.

Simon Dixon: Yeah, net of PLLACes second half.

James Druce: (CLSA, Analyst) Yeah. Sorry, Simon.

Simon Dixon: I was going to say, in terms of how we're managing the cash flows and managing the business we'll continue to manage within that 10per cent to 20per cent net gearing range that we've clearly articulated to the market and really, with full year, looking again to try and manage it within that at or near the midpoint of that range.

James Druce: (CLSA, Analyst) Okay. So you're expecting some flat gearing.

Simon Dixon: Well, that's for the full year position. Obviously, given the nature of our business, things can go up or down in a short period. We are looking to manage within the 10per cent to 20per cent and guiding towards the at or near the midpoint for the full year. You'll have picked up in the presentation, just so that we're abundantly clear, that

we will always prioritise balance sheet strength over and above growth if that's the alternative that we're faced with.

James Druce: (CLSA, Analyst) One more if I can be greedy. You made a couple of comments around simplifying the business. I'm just curious, does that tend to bias you towards selling 100per cent of some of these assets which are in the market? Can you really simplify the business through part sales?

Tony Lombardo: Look, I think the number one thing, James, that we have been focused on when we took over and we did the first phase of the strategy reset, it focused in on Group and it focused in on Australia. We’ve realised over 170 million already today of savings through that exercise. Over the last six to nine months, we turned our attention on the international operations on how to better run the business. What I've called out is from an overhead, so that's our enterprise service support level – we've streamlined the way we operate across that so we've seen benefits coming across our enterprise support teams.

Also, when it comes to the way we operate projects and how we're all focused on certain risk profiles in Construction, we've decided to take a very different approach to some of the developments. So, some developments will now look at being a master developer of that development and realise value, not just from production, but also from land sale. Therefore we have recalibrated the size of the teams that we've got working on a number of projects.

As I've called out on risk profile on construction, we've taken a more disciplined approach in what type of work we’ll win. 62per cent of our work is government based today with 38per cent private and we've got a real aim and a bent on some of the external things that we do today to be more of that government lower risk work from our perspective. Again, that's allowed us to rationalise some of the teams.

Also offshore, called out in Development, we're not looking to win any projects at the moment in Europe or the US. So that's allowed us to again, recalibrate, resize teams so it doesn't rely on–

James Druce: (CLSA, Analyst) That’s clear. Thank you.

Tony Lombardo: Thanks.

Operator: Your next question comes from David Pobucky with Macquarie Group. Please go ahead.

David Pobucky: (Macquarie Group, Analyst) Good morning, Tony and Simon. Thanks for taking my questions. I just wanted to pick up on a couple of the last few there. In terms of the cost savings, can you talk to the remainder to get to the $150 million realised in future years from the $60 million expected for ‘24? How should we think about the phasing there?

Tony Lombardo: Yes, so what you should anticipate, we've called out half of the savings will come through enterprise support, which that means about circa $75 million. That will flow through your overhead line.

When it comes to the other half that are in cost of sales, some of those projects or people would have been capitalised as they would have been on developments. So what we are saying, some of that cost gets realised over time and what we believe you'll start to see that run rate benefit emerged through the FY25 year.

David Pobucky: (Macquarie Group, Analyst) Thank you. That's clear. Just in terms of the balance sheet, you touched on it a little bit in my last questions, beyond FY24, it looks like you need to find just under $2 billion of capital expenditure by ‘26 to get to that $12 billion of capital deployed that target that you have. What's your view on the balance sheet capacity to get to that number please?

Simon Dixon: Okay. I'd say a couple of things. So we've got just over $10 billion deployed today across Investment and Development. What we've clearly indicated through this presentation and in our announcement today is that we continue to pivot towards being Investment-led, which means at the moment we've got 40per cent of our capital in investment and 60per cent in development.

By FY26, we want that to be 60per cent in Investments and 40per cent in Development. In terms of how much capital will be deployed by the end of FY26, the $12 billion that we talked about in prior periods, to be clear, was never a commitment. That was always a target based on the ability to retain earnings, based on the ability to recycle assets above book, based on the ability to take on incremental debt.

I don't want to guide the market towards that $12 billion total at this year end because it was mistaken by some as being a commitment rather than a target. So clearly we want to continue to grow capital deployed into Investments and Developments, but I'm more comfortable with just giving the overall percentage allocation of 60/40 by FY26.

Clearly we expect it to grow from its current levels over the next few years but I don't want to put a hard target out there because I'm just conscious that it's going to be misinterpreted. To my earlier point, we will always prioritise protecting the balance sheet over and above growth at any cost.

David Pobucky: (Macquarie Group, Analyst) Thank you. That's very clear. Maybe just one last one, if I may please just on interest and maybe one for Simon, big expectations and thanks for some of the colour there in terms of what drove that FY23. How should we think about FY24? Should we be expecting any nuances there in the coming year, please that might drive a different outcome than expected?

Simon Dixon: So we've obviously we've pulled out in terms of the finance costs. We pulled out the impact of the bond buyback, so that's very clear in the presentation. As we move forward in FY24, clearly we are seeing rates remain elevated.

We're still in a strong hedging position with over 60per cent but we do expect to see our average debt – the cost of our average debt move modestly higher as we look forward to the next 12 months.

I'd also say in terms of average net debt we've landed at year end at or near the midpoint. I've guided towards year end as well. So you can read through that in terms of where you see average net debt for the year.

The cost of debt, clearly there's a risk of a modest increase over and above where we are. We've finished the year with an average net debt cost of 4.3per cent. So one could expect that to move up, as I said, modestly with the floating rate debt that's in place.

David Pobucky: (Macquarie Group, Analyst) Great. Thank you. Really appreciate it.

Operator: Your next question comes from Richard Jones with JP Morgan. Please go ahead.

Richard Jones: (JP Morgan, Analyst) Hi, Tony and Simon. Just two quick ones. Just to clarify, TRX Retail, do you expect to sell down part or all of your 60per cent stake this year?

Tony Lombardo: With TRX Retail, we will be aiming firstly just to get the centre up and running and open because that's a key priority. We have now started to look at a capital strategy for that asset. We won't sell down 100per cent of our 60per cent if we were trying to bring in a capital partner. We'll be trying to bring someone in for probably at least 30per cent of that stake.

Richard Jones: (JP Morgan, Analyst) Okay, but we're not sure if that will happen this year.

Tony Lombardo: We're planning to start working through that to bring in our capital partners. It's just something we've got on the go and hopefully over the next 12, 18 months, it's something the team will work on as we look to stabilise the asset, get it realised at the right level, and then look to bring in that right capital partner for the future.

Richard Jones: (JP Morgan, Analyst) Okay, thank you. Then just can you provide a leasing and profit status of both Melbourne Quarter and Vic Cross office projects?

Tony Lombardo: Yes, I think on Melbourne Quarter today the key tenant we've got in there is Medibank and we are working on a number of key proposals. I mean we have sold 100per cent of that asset down to a capital partner, so we don't have any capital risk. The key now is really on completion and to lease that up and we've got some very good enquiries at the moment on that.

On Vic Cross, we're 75per cent of that asset. Again, we've still got 24 months to complete and lease it up - there are a number of tenants we are speaking to as we progress that during this financial year. We'll keep the market up to date and abreast.

Richard Jones: (JP Morgan, Analyst) Sorry, just in terms of Melbourne Quarter, I think Medibank handed back some space. So is it about 25per cent done? Is that right? I assume there's a rent guarantee in place for 24 months or something, is there? Can you just clarify that?

Tony Lombardo: Yes, there is a rental guarantee that we had put in place and yes, Medibank has looked to put back 25per cent of that space, but it's 25per cent leased today from our perspective.

Richard Jones: (JP Morgan, Analyst) Okay, thank you.

Operator: Your next question comes from Suraj Nebhani with Citi. Please go ahead.

Suraj Nebhani: (Citi, Analyst) Thank you. A couple of questions have been answered, but just one on the provisions that were taken in the Investments division this period, can you talk a bit more about that? That seemed to be a bit unexpected.

Simon Dixon: Perhaps I'll take this one. I think we're referring to the Telco provision that was taken against, yes Investments segment. Yes, so that relates to a business that was sold in FY21, our Telco Towers business.

The sales proceeds at the time included a deferred element that was contingent on that business, continuing to meet certain revenue hurdles along the way and market conditions have since deteriorated and we're tracking slightly below the targets we need to hit to receive that consideration in full. So we've taken the position at year end to take a provision against part of that consideration receivable in line with the historic growth rates that we're seeing.

Suraj Nebhani: (Citi, Analyst) So just to clarify that Simon, was the deferred profit already recognised in the earnings in FY21 and this is - sort of this provision -

Simon Dixon: No, I mean the way that it was accounted for in FY21 was that that business had been carried at a market valuation and then the disposal was at or near that market valuation. So there was no large profit or loss on that transaction.

I'll go on to say that it was entirely appropriate at that point in time to record this consideration as receivable. It was absolutely expected based on revenue rates achieved to date and expectations going forward and it was also the subject of independent valuations and a commercial agreement.

It is something which we've obviously been monitoring closely, but those quarterly growth rates have tracked down recently. So we've taken the decision to take an appropriate provision against that receivable.

I would add there's another 18 months left through to December ‘24 in terms of the performance period. So again, we'll just need to keep that under observation to see how performance finishes up over the next 18 months.

Suraj Nebhani: (Citi, Analyst) Just one broader one on these provisions. I notice there are a few that have been flagged these results, but I guess is it standard for any sale in any business to have these provision – potential for these provisions down the line if there is a performance related something in the price?

I'm just trying to get a better understanding of the likelihood of these in the future, given you are flagging sales of a few more businesses.

Simon Dixon: Every deal can be different subject to commercial terms agreed. Obviously as a seller you prefer a clean bill and things upfront, but that's subject to the commercial negotiations at the time. So it's impossible to say that that's standard or non-standard. It really is a transaction by transaction discussion.

Tony Lombardo: What I would say is over the last 24 months we shifted in Development the way we've structured our joint ventures, which we now will realise profits over time more akin to when risk reward and progress is made on leasing or we've got that cash back.

So I think all I can say is the portfolio, from our perspective, we've been very focused on de-risking how we structure these deals to avoid necessary provisions or the like into the future

Simon Dixon: Look just to give a bit more colour, I think if in doubt we're certainly always more keen to take the simple option rather than the complex.

Suraj Nebhani: (Citi, Analyst) Yes, that makes sense. Thank you. I just want to follow up on Richard's question about Vic Cross. Can you just clarify for me how much is that leased?

I guess are there any potential hurdles there near term? Obviously you've recognised the profit there, but from the perspective of the buyer in that project, are there any particular guarantees or something like that, any timelines for that?

Tony Lombardo: Yes, so I think on Vic Cross, again, we haven't leased anything as yet. We have a number of prospective tenants that we are working to potentially be those first tenants. We still have another 24 months to run and Lendlease has a 75per centper cent equity interest in that.

On Melbourne Quarter, just to clarify again, that's been fully sold down. It's 25per centper cent leased to date in terms of – and that's been 25per centper cent leased since FY21 when we kicked that development off.

Suraj Nebhani: (Citi, Analyst) Thank you. That's all I had. Thanks for that.

Operator: Your next question comes from Alex Prineas with Morningstar. Please go ahead.

Alexander Prineas: (Morningstar, Analyst) Thank you. Just following up on the questions about the telecommunications provision, you mentioned that there's 18 months to go to measure that performance hurdle. Does that mean that provision could get larger or is that more 18 months to go to perhaps make that back? Can you just indicate the potential ranges there?

Simon Dixon: Certainly. There's risk and opportunity associated with that. So we've effectively taken it down to the current run rate, based on what we expect to receive. So the residual amount is circa AUD$60 million. That's really the amount at risk.

If things were to outperform, then clearly there's the ability to potentially reverse some of that provision that we've already taken, some or all of it. So that's your range of options.

We also took a very modest provision against it in the prior year of about $20 million. So you'd say that's your range of outcomes. I think the position we've landed at is the conservative one because it's based on the actual growth rates on revenue, but again, we'll just need to keep that under review and monitor that and we'll update the market at the next opportunity.

Alexander Prineas: (Morningstar, Analyst) Thank you. That's it from me.

Simon Dixon: Thanks Alex.

Operator: Your next question comes from Tom Bodor with UBS. Please go ahead.

Tom Bodor: (UBS, Analyst) Hi, just a quick follow-up one, I think on the Development capital, you've flagged moving capital back towards Australia, away from the US and UK, and I'm just wondering if there are any implications for your $8 billion per annum completion targets as a result of that, or do you think that's still valid?

Simon Dixon: No, look, I think it's still valid. I think the goal is to really restock our pipeline here in Australia and what we're flagging is we'll look to not just put things in production, but where we feel we've added value to land we will from time to time look at actually realising some of the value of that landholding as well.

So they're all efforts and levers we've got to pull as we manage our Development capital going forward.

Tom Bodor: (UBS, Analyst) Okay, thanks.

Simon Dixon: Thank you.

Operator: Your next question comes from Ben Brayshaw with Barrenjoey. Please go ahead.

Ben Brayshaw: (Barrenjoey, Analyst) Thanks for the follow-up question. I was just wondering if you could comment on if there is a capital partnering transaction for communities at a premium to book? Will that likely be taken to core earnings as a profit on sale?

Tony Lombardo: Yes so again, thanks Ben for the question. What we will do is if there is – and what we have put in our guidance final page is in '24 we are anticipating a transaction in communities and we have factored that into be part of our core profits in FY24.

Simon Dixon: Again, just think about the definition investment revaluations, the investment segment and material one-off non-operating items. So clearly this is core to our business.

Ben Brayshaw: (Barrenjoey, Analyst) Okay, thank you.

Tony Lombardo: Thanks Ben.

Operator: There are no further questions at this time. I'll now hand back to Mr Lombardo for closing remarks.

Tony Lombardo: Well thank you all and thanks for joining today's call. So we'll call that a wrap.

Simon Dixon: Thank you.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

14 August 2023

End of Transcript