ASX Announcement

16 February 2022

Strong operational and financial execution positions Vicinity for growth in resilient retail sector; FY22 guidance provided

Result headlines

- 1H FY22 results reflect strong operational and financial execution despite continued COVID-19 impact:
  - Statutory net profit after tax of $650.2m, up $1.04 billion (1H FY21: statutory net loss after tax of $394.1m)
  - Funds from operations (FFO)[1] of $287.7m or 6.32cps (1H FY21: $267.1m or 5.87cps)
  - Interim distribution of 4.7cps, reflecting a payout ratio of 84% of Adjusted FFO (AFFO) (1H FY21: 3.4cps, payout ratio 62%)
- Strong balance sheet maintained, with low gearing of 26.3% and liquidity of $1.8b
- NTA[2] of $2.28 underpinned by 2.3% uplift in asset valuations and supported by strengthening transactions market
- Recovery from the pandemic gaining momentum, despite spread of Omicron impacting visitation in late December 2021 and early 2H FY22
- Retail sales rebounded in November and December 2021 as retailer and shopper confidence strengthened coming out of lockdowns across two major markets
- Occupancy maintained at 98.2%, supported by resilient leasing activity
- Execution of strategy via portfolio enhancement, leasing outcomes and progress on mixed-use and retail development
- FY22 FFO per security expected to be in the range of 11.8-12.6 cents with AFFO per security expected to be in the range of 9.5-10.3 cents and Vicinity is targeting a full-year distribution payout range of 95-100% of AFFO[3]

Financial performance

Vicinity Centres (Vicinity, ASX:VCX) today announced its results for the six months ended 31 December 2021 (1H FY22), with a statutory net profit after tax of $650.2 million, representing a $1.04 billion increase on the prior corresponding period. Statutory net profit principally comprised FFO of $287.7 million and a non-cash net property valuation gain of $320.1 million[4].

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[1] A reconciliation of FFO to statutory net profit is in Note 1(b) of the Financial Report for the six months ended 31 December 2021 released to ASX today. FFO is a non-IFRS measure.
[2] Net Tangible Assets per security. Adjusting NTA for the distribution of $214.0 million declared today, which relates to the six months ended 31 December 2021, NTA would be $2.23.
[3] Vicinity's FY22 guidance range is subject to changes in COVID-related conditions.
[4] Excludes statutory accounting adjustments.

While Australia continued to be impacted by the COVID-19 pandemic, Vicinity delivered 7.7% growth in FFO versus 1H FY21. This largely reflected higher Net Property Income (NPI), up 10.7% to $381.3 million, with lower waivers and provisions, partially offset by higher net interest expense.

Mr Grant Kelley, CEO and Managing Director, said: "The first half of FY22 was another challenging period for Vicinity, our retail partners and the retail sector more broadly. However, despite continued COVID-related disruptions and a greater proportion of our assets being in lockdown this period, our disciplined approach to cash collection and retailer support, together with higher than anticipated tenant retention and resilient ancillary income underpinned our significantly improved result.

"We were pleased to see our asset valuations increase amid a buoyant capital transaction market and a resilient underlying retail sector. DFO valuations continue to grow as tightening capitalisation rates and income growth highlight the strength of our DFO portfolio and its resilience through cycles.

"Our Neighbourhood and Sub Regional asset valuations have benefited from strong transactional evidence while retailer demand for flagship stores in our CBD centres remained strong throughout the pandemic, despite the subdued visitation and trading environment. Pleasingly, our CBD portfolio recorded a modest uplift in valuations over the period, corroborating our view that the outlook for CBD retail is improving and these centres will return to their former vibrancy in time."

During the period, Vicinity enhanced its portfolio with the acquisition of a 50% interest in Harbour Town Premium Outlets Gold Coast (Harbour Town) for $358 million (settled on 30 November 2021) and the sale of its 50% interest in Runaway Bay, on the Gold Coast for $132 million, representing an 18% premium to book value (to be settled by 30 June 2022).

Mr Kelley added, "These transactions demonstrate our willingness to recycle our capital into assets with superior growth potential, where we can leverage our expertise and add strategic value, such as in the Outlet sector."

Gearing increased 250bps to 26.3% over the period, largely reflecting the settlement of Harbour Town[5]. Vicinity maintained its investment grade credit ratings of A/stable (S&P) and A2/stable (Moody's) and has available liquidity of $1.8 billion. Vicinity's weighted average cost of debt[6] was slightly lower at 4.1%[7] and the weighted average debt maturity is 3.9 years based on limits and 4.8 years based on drawn debt.

Portfolio performance

During 1H FY22, 643 leasing deals were completed with an average spread of -6.4%, a significant improvement on 542 deals at a spread of -12.6% in 1H FY21. Of all new leasing deals agreed in the period, 72% were negotiated with fixed annual increases of 5% and cumulatively, 91% of all new deals were negotiated with fixed annual increases of at least 4%.

[5] Adjusting for the divestment of Runaway Bay, which is expected to settle by 30 June 2022, gearing would be 25.6%.
[6] The average over the six-months ending 31 December 2021 and inclusive of margin, drawn line fees and drawn establishment fees.
[7] Excluding the benefit from the short-term reset of interest rate swaps in 1H FY21, Vicinity's weighted average cost of debt was 4.3% for the six months to 31 December 2020.

Robust leasing activity during the period demonstrated the underlying resilience of the retail sector, notably in Victoria, while retailer administrations in the year to date have remained low.

Vicinity leased 201 vacant stores during 1H FY22 and occupancy was maintained at 98.2% at the end of December 2021, in line with six months prior.

In addition to honouring the obligations imposed by the SME Code of Conduct[8] (SME Codes), Vicinity continued to provide support to retail partners in categories and locations most impacted by the pandemic, such as travel, food & beverage and CBD locations.

COVID-19 lease variation negotiations with non-SME retail tenants are focused on driving mutual value and leasing outcomes that reflect the quality of Vicinity's assets.

Mr Kelley commented, "Our highly targeted approach to negotiations has contributed to our reduced number of holdovers, preserved our weighted average lease expiry profile, improved leasing spreads and enhanced retailer mix across our centres."

Collection of gross rental billings averaged 80% for 1H FY22[9], representing an improvement on the average cash collected for 1Q FY22[10]. Net of estimated waivers in respect to 1H FY22 gross billings, cash collection averaged approximately 92% for the period.

Since the start of the pandemic in February 2020, Vicinity has allocated more than $300 million[11] of support to retailers (FY21: $231 million), around 90% of which has been in the form of outright rent forgiveness.

Retail trading performance

On retail sales performance, Mr Kelley said, "Despite significant and often prolonged disruptions, consumer and retailer activity during the year demonstrated underlying resilience. In all states, when COVID-19 restrictions eased, consumers were quick to return to retail malls with confidence and the capacity to spend."

In NSW and Victoria, retail sales[12] rebounded strongly when restrictions eased in October 2021. Of significant note, November and December 2021 retail sales increased by 5.6% on pre-COVID levels, driven by a robust recovery in visitation (increased to 84% of pre-COVID levels, up from 50.1% at 1Q FY22) and continued growth in spend per visit[13].

In states less affected by COVID-19[14], visitation remained near pre-COVID levels and retail sales growth has been consistently strong, up by 8.1% in 1H FY22 versus pre-COVID levels. Vicinity attributes the consistently strong retail sales growth to the favourable macro-economic environment, and restricted international travel which kept significant Australian-based demand onshore.

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[8] Refers to the Federal Government's SME Commercial Code of Conduct and Leasing Principles During COVID-19, or the regulations implemented in Victoria and NSW, collectively referred to as the 'SME Codes'.

[9] Cash collections reported for the period in which they are billed, with collections reported as at 31 January 2022.

[10] 1Q FY22 cash collections was 74% as at 25 October 2021.

[11] Vicinity share.

[12] Sales are reported for comparable centres, which excludes acquisitions, divestments and development-impacted centres in accordance with Shopping Centre Council of Australia (SCCA) guidelines. Also excludes travel sales.

[13] Retail sales and visitation in November and December 2021 exclude CBDs.

[14] Includes Queensland, Western Australia, South Australia and Tasmania, collectively referred to as COVID-unimpacted.

On an MAT basis, total portfolio retail sales increased by 7.3% reflecting strong growth in Victoria, up 17.0%, and 4.5% growth in COVID-unimpacted states[15]. Given that NSW was in lockdown for a higher proportion of 2021 versus 2020, MAT retail sales were down 5.1%.

Across all states, shopping remains more purposeful, with average spend per visit up 29%[16] on pre-COVID levels, with electrical, sporting goods and luxury retailers, together with discount department stores continuing to outperform the portfolio.

Progress on development pipeline

On Vicinity's development pipeline, Mr Kelley noted: "Enhancing and expanding our core retail portfolio, together with our major mixed-use development pipeline remain important contributors to our future growth."

Current developments include a car park and rooftop solar project that were recently completed ahead of a mezzanine dining and entertainment precinct at Chadstone which has now commenced. At Bankstown Central, development of a new Coles Supermarket and fresh food precinct, and Uniqlo-anchored mini majors precinct is underway. We are consolidating our retail proposition in Box Hill South, with a new Coles supermarket, expanded dining offer and contemporary upgrades to common areas ahead of the future major mixed-use development at Box Hill North.

Vicinity's mixed-use priorities for 2022 are focused on commercial development opportunities at Bankstown Central, Bayside, Box Hill Central, Buranda Central, Chadstone and Chatswood Chase Sydney.

In December 2021, Officeworks committed to relocating their headquarters to a fully refurbished 8,000 sqm office tower at Chadstone in what was the second largest Melbourne suburban office leasing deal in 2021. Pleasingly, all existing office space at Chadstone is now fully leased and pre-leasing discussions for our 20,000 sqm One Middle Road tower at Chadstone have been very encouraging.

Leading co-working provider, Hub Australia, committed to over 4,000 sqm of office space at Box Hill South and Vicinity is now seeking tenant pre-commitments for two office towers at Bankstown Central, and a 14,000 sqm office tower at Bayside.

At Buranda Village, we have submitted plans to completely transform the site, developing an 8,200 sqm retail and dining precinct with up to 600 residential dwellings and 50,000 sqm of office space.

Summary and outlook

In summary, Mr Kelley said, "Continuing the momentum from FY21, our 1H FY22 results demonstrate our ability to execute on our operational and financial objectives. Our recovery from the pandemic is gaining momentum and we will continue to focus on converting our strategy into value accretive outcomes that deliver sustainable growth.

"We expect the impacts of COVID-19 on our business to continue over the coming months due to the emergence of Omicron in late December 2021. In January 2022, Omicron had a material impact on visitation,

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[15] Includes Queensland, Western Australia, South Australia and Tasmania, collectively referred to as COVID-unimpacted.

[16] In November and December 2021.

particularly at our centres located on the east coast of Australia, however we are seeing an upward trend in the first two weeks of February."

Guidance
Vicinity expects FY22 FFO per security to be in the range of 11.8 cents to 12.6 cents and AFFO is expected to be in the range of 9.5 cents to 10.3 cents. Vicinity is targeting a full-year distribution payout range of 95-100% of AFFO[17].

Mr Kelley noted, "Our guidance range demonstrates our growing optimism in general trading conditions and our confidence that we have the financial and operational capacity to manage the near-term demands of the pandemic whilst delivering on our growth agenda.

"In summary, today's result and our FY22 guidance are testament to the high-performing and resilient team we have at Vicinity and the strength of our asset portfolio and retail partnerships. Together with the Board and my Executive Leadership Team, I would like to acknowledge and thank everyone who is affiliated with Vicinity for their ongoing support, most especially our securityholders, retail partners and customers."

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Additional detail on Vicinity's 1H FY22 results can be found in the investor presentation released to the ASX today. A briefing by management elaborating on this announcement will be webcast from 10.30am (AEDT) today and can be accessed via vicinity.com.au.

Authorisation
The Board has authorised that this document be given to ASX.

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[17] Vicinity's FY22 guidance range is subject to changes in COVID-related conditions.