# ASX Announcement

16 August 2023

## Vicinity Centres delivers strong FY23 result buoyed by positive operating metrics and income growth

**Result headlines**

- FY23 result reflects retail sector resilience and strong operational execution:
  - Statutory net profit after tax ('NPAT') of $271.5m (FY22: $1,215.2m) largely driven by non-cash reduction in asset valuations
  - Funds from operations ('FFO')[1] of $684.8m or 15.0cps (FY22: $598.3m, 13.1cps)
  - Adjusted FFO ('AFFO') of $576.0m or 12.7cps (FY22: $496.8m, 10.9cps)
  - Final distribution of 6.25 cps bringing FY23 distribution to 12.0cps representing a payout ratio of 94.9% of AFFO
- Divested 50% interest in Broadmeadows Central shopping centre at a 5.2% premium to book value
- Portfolio retail sales up 8.0% in 2H FY23 relative to the previous corresponding period, despite growth rates moderating in 4Q FY23
- Significant level of high-quality leasing activity delivered in FY23 with reduced holdovers and positive leasing spreads supporting future income growth
- Occupancy increased to 98.8% supported by strong leasing activity throughout FY23 (FY22: 98.3%)
- NTA[2] reduced 6 cents to $2.30 in FY23 driven by a reduction in asset valuations (FY22: $2.36)
- Low gearing and strong credit metrics maintained, enabling investment in Vicinity's growth priorities
- Refreshed strategy focused on enhancing the investment portfolio, delivering property excellence, maintaining strong financial stewardship, and enabling good business
- FFO per security and AFFO per security expected to be in the range of 14.1 to 14.5 cents and 11.8 to 12.2 cents, respectively in FY24. Full year distribution payout expected to be within Vicinity's target range of 95-100% of AFFO[3]

**Financial performance**

Vicinity Centres ('**Vicinity**', '**the Company**' ASX:VCX) today announced its results for the 12 months ended 30 June 2023 ('**FY23**'), with NPAT of $271.5 million.

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[1] A reconciliation of FFO to statutory net profit is in Note 1(b) of the Financial Report in the 2023 Annual Report released to ASX today. FFO is a non-IFRS measure.
[2] Net tangible assets per security.
[3] Guidance assumes no material deterioration in economic conditions.

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Statutory NPAT principally comprised $684.8 million of FFO, offset by a non-cash net property valuation loss of $338.4 million[4] and other statutory and non-cash items.

FFO increased by 14.5%, largely driven by a 12.1% uplift in Net Property Income ('NPI') to $900.2 million; now at pre-COVID levels. NPI growth was driven by improved cash collections from current and prior years[5], positive rental growth, percentage rent uplift, continued ancillary income growth, led by carparks and media sales, and higher occupancy. NPI growth was partially offset by higher net interest expense, driven by higher funding for development activity as well as increased interest rates.

Vicinity's CEO and Managing Director, Mr Peter Huddle said: "FY23 has been a year of resilience and growth at Vicinity. During the year, we deliberately executed at pace while the retail sector was favourable. We delivered a significant level of high-quality leasing outcomes, focused on enhancing the retail mix of each centre and reducing our income at risk, while simultaneously negotiating favourable leasing spreads which support current and future NPI growth.

"Furthermore, we have continued to invest our capital to progress development approvals and execute project activity that will ultimately deliver long term value to our stakeholders, despite near-term, heightened macroeconomic uncertainty."

The Board declared a final distribution per security of 6.25 cents, bringing the total FY23 distribution to 12.0 cents (FY22: 10.4 cents), representing a payout ratio of 94.9% of AFFO (FY22: 95.3%).

Consistent with Vicinity's prudent approach to managing its balance sheet, gearing was at the lower end of the 25%-35% target range at 25.6%, as at 30 June 2023. Vicinity maintained its investment grade credit ratings of A/stable (S&P) and A2/stable (Moody's).

Vicinity's weighted average cost of debt[6] for FY23 was higher at 4.6% (FY22: 4.3%) and the weighted average duration was 4.0 years on drawn debt, and 4.4 years on hedged debt. Vicinity has liquidity of $1.2 billion.

Vicinity commences FY24 with 90% of drawn debt hedged[7], with a modest step down in FY25, and will maintain an active focus on managing interest rate risk.

**2H FY23 valuations**

Vicinity's portfolio recorded a 1.6% or $229.1 million decline[8] in total asset valuation for the six months to 30 June 2023.

The valuation result reflects a 16 basis points softening of the portfolio's weighted average capitalisation rate, partially offset by robust income growth. Longer term income growth has been supported by Vicinity's strong leasing performance which in turn, reflects the quality of Vicinity's asset portfolio.

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[4] Excludes statutory accounting adjustments.
[5] NPI included a $29.2 million reversal of prior years' waivers and provisions (FY22: $62.8 million).
[6] The average over the 12 months ended 30 June 2023 and inclusive of margin, line fees and establishment fees. Excluding undrawn line fees and undrawn establishment fees, WACD in FY23 was 4.4% (FY22: 4.0%).
[7] Includes $123.0 million repayment of bank debt on 4 July 2023.
[8] Excludes statutory accounting adjustments.

Of particular note, Chadstone's $28.2 million increase in valuation reflected strong income growth and the completion of The Social Quarter, partially offset by a 12.5 basis point softening capitalisation rate.

Mr Huddle said, "In the final quarter, we were pleased to sell a 50% interest in the shopping centre at Broadmeadows Central, at a 5.2% premium to 31 December 2022 book value. In the immediate term, the transaction strengthened our balance sheet, and we are now poised to recycle the capital into value accretive opportunities that align with our strategy."

**Retail sales and portfolio performance**

*Retail sales growth in 2H FY23*[9]

Total retail sales in 2H FY23 were up 8.0% on 2H FY22 with mid-to-high single digit growth rates delivered across mini majors, supermarkets, discount department stores and departments stores, and 10.0% specialty growth.

Across mini majors and specialties, all product categories delivered growth in 2H FY23 with food catering and food retail, together with jewellery delivering the strongest growth rates, at 21.1%, 14.7% and 14.6%, respectively.

Luxury continued to perform strongly in 2H FY23 with growth of 7.3% and Vicinity's premium centres, comprising Chadstone, Outlets and CBDs also delivered strong growth, up 7.2%, 8.8% and 21.0%, respectively in 2H FY23.

While the retail sector remained resilient in FY23, the rate of sales growth moderated in late 4Q FY23. After strong growth in recent periods, homewares as well as apparel & footwear had flat sales during the quarter as higher living costs impacted consumption.

Across the CBD portfolio, retail sales growth was strong in 2H FY23, underpinned by a 30% uplift in visitation, with the steady return of office workers to CBDs and the continued recovery of international tourism, now at 77% of pre-COVID[10]. Notably, while the number of international tourists is forecast to reach pre-COVID levels in 2025, tourism spend is expected to return to pre-COVID levels in 2024, which bodes well for Vicinity's CBD portfolio[11].

More broadly, total portfolio visitation increased 11.9% in 2H FY23 relative to 2H FY22 with all centre types observing an improvement.

*Portfolio performance*

Critical to Vicinity delivering resilient income growth over time, the Company remained focused on negotiating quality, long-term leasing deals with fixed rate escalators at improving spreads, reducing holdovers, and increasing occupancy in a favourable retail environment.

[9] Retail sales growth in FY23 relative to FY22 is impacted by COVID-related lockdowns occurring in 1H FY22. Both 2H FY23 and 2H FY22 were free of lockdowns and are therefore broadly comparable. Unless otherwise stated, all retail sales growth numbers are relative to 2H FY22 (previous corresponding period).

[10] Short-term international arrivals May 23 vs May 19 (monthly). Australian Bureau of Statistics.

[11] Tourism Research Australia, December 2022.

Vicinity leased 306 vacant stores in FY23, and occupancy increased to 98.8% from 98.6% reported at 1H FY23 and 98.0% reported at the height of the pandemic (Dec-20).

In FY23, Vicinity completed 1,628 comparable leasing deals, 250 more deals than FY22 and approximately 25% higher than pre-COVID levels (FY19). This delivered $208 million of first year rent relative to $162 million in FY22.

Total deals completed in FY23 was almost 2,250 and this volume surpassed any previous year since the Company's inception in 2015.

Leasing spreads continued to show positive momentum, with a positive leasing spread for FY23 of +0.3% relative to -4.8% reported over FY22 and -0.1% for 1H FY23. Vicinity continued to achieve high single digit spreads for Chadstone and DFOs, driven by ongoing retailer demand for premium assets.

Vicinity's specialty occupancy cost ratio ('OCR') remains robust at 13.5% which compares to 15.0% immediately pre-COVID and reinforces the resilience of current and future rents.

Mr Huddle said, "The volume and characteristics of the leasing deals completed in FY23 clearly demonstrates that large, national retailers are now willing to lock in long term leases in traditional retail. During the year, we transitioned more than 200 shops from short-term to long-term leases and this is evident in our significantly reduced holdover count and income at risk."

Critical to embedding resilience in Vicinity's business model, the Company maintained its traditional specialty retail lease structure of five-year leases with fixed annual escalators. In FY23, Vicinity concluded 2,249 leases with average annual escalators of 4.6%.

**Progress on development pipeline**

In FY23, Vicinity continued to enhance its investment portfolio with the completion of a number of developments during the year, including a Coles supermarket, a Grand Market, and mini majors precinct at Bankstown Central. A Coles supermarket and services mall, and three-storey office podium, leased to Hub Australia, was opened at Box Hill Central, and at Chadstone, we completed The Social Quarter and the redeveloped Chadstone Place office, now fully occupied by Officeworks' Head Office.

Mr Huddle added: "I am particularly pleased with the exciting new entertainment, leisure and dining offer at Chadstone, The Social Quarter, which opened in early 2023. This project has expanded the customer base of Chadstone, capturing more of the leisure market, and extended the centre's customer visitation into the evenings."

At Chadstone, Vicinity also commenced construction of the 20,000 sqm One Middle Road office tower, with more than 55% of pre-committed space. The office tower will be integrated into two levels of retail on the eastern side of Chadstone, with the retail component comprising a new, revitalised fresh food precinct, 'The Market Pavilion' and a new alfresco dining precinct. The development is expected to complete in stages from late 2023 until October 2024.

A major upgrade of the fresh food and dining precincts is also underway at Chatswood Chase Sydney. This project will significantly lift the food and dining offer across the lower ground level and positions the centre well for the redevelopment of the upper levels notably with the introduction of a substantial luxury retail offering. Vicinity received development approval for the redevelopment in late FY23.

Investment capital expenditure in FY24 is expected to be approximately $400 million.

**Sustainability**

On Vicinity's Sustainability program, Mr Huddle commented, "At Vicinity, we believe that having a sustainable business is critical to delivering long-term value for all stakeholders. In FY23, our focus has been on delivering on a number of Diversity, Inclusion and Belonging programs and enhancing connections with our communities.

"Vicinity's community engagement ranges from portfolio-wide initiatives like our new employee social impact platform 'Vicinity Cares' and paid volunteer leave, to smaller centre-specific programs focusing on the needs of our local communities. There are a multitude of initiatives undertaken across our portfolio each year which, when combined, amount to significant community reach and impact."

From an Environmental perspective, Vicinity is on track with its goal to achieve Net Zero for our Scope 1 and Scope 2 emissions for common mall areas across our wholly-owned retail assets by 2030[12]. In addition, Vicinity continues to be recognised in prominent investor surveys; ranked Oceania Leader for the second consecutive year and #3 globally by the Global Real Estate Sustainability Benchmark.

**Guidance**

FY24 FFO per security and AFFO per security is expected to be in the range of 14.1 to 14.5 cents and 11.8 to 12.2 cents, respectively[13].

Adjusting for the reversal of prior years' waivers and provisions (representing +0.6 cents per security) and transactions (representing +0.1 cents per security), FY23 FFO per security was 14.3 cents.

Key assumptions underpinning FY24 earnings guidance are as follows:

- Comparable NPI growth of approximately 3%, following strong operating metrics delivered in FY23; and
- Average three-month bank bill swap rate between 4.25% and 4.75%.

Vicinity expects its full year distribution payout to be within its target range of 95-100% of AFFO.

Mr Huddle concluded, "In closing, together with the Board and the 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, joint venture and capital partners, customers and of course, the Vicinity team."

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Additional detail on Vicinity's FY23 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 11.30am (AEST) today and can be accessed via vicinity.com.au.

[12] Details of Vicinity's wholly-owned assets can be found in the FY23 annual results property book released to the ASX on 16 August 2023.

[13] Guidance assumes no material deterioration in economic conditions.

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

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**About Vicinity Centres**
Vicinity Centres (Vicinity or the Group) is one of Australia's leading retail property groups with a fully integrated asset management platform, and $24 billion in retail assets under management across 60 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 59 shopping centres (including the DFO Brisbane business) and manages 30 assets on behalf of Strategic Partners, 29 of which are co-owned by the Group. Vicinity is listed on the Australian Securities Exchange (ASX) under the code 'VCX' and has 24,000 securityholders. Vicinity also has European medium term notes listed on the ASX under the code 'VCD'. For more information visit vicinity.com.au or use your smartphone to scan this QR code.