PEET

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ASX RELEASE

Peet trading update and initiatives to enhance shareholder value

Peet Limited (ASX: PPC) ("**The Group**" or "**Peet**") has today announced a trading update for FY20 and outlined proactive measures being undertaken to simplify Peet's strategic focus, reduce costs and further strengthen the Group's capital position.

Key points

- **Significant improvement in customer enquiry levels since the introduction of Federal and State Government stimulus measures**
- **Right-sizing of cost base targeting annualised savings of $5-7 million from 2H21**
- **Non-core project divestment program expected to realise c.$75 million during FY21 and FY22**
- **Restructuring and divestment-related provisions of c.$45 million after tax expected in FY20**
- **1,786 contracts on hand[1] as at 30 June 2020, up 42% on 30 June 2019**
- **FY20 operating profit[2] after tax expected to be in the range of $14-16 million**
- **Cash and debt facility headroom in excess of $130 million as at 30 June 2020**
- **Well positioned to capitalise on recent improvement in market conditions and Government stimulus**

Trading and market update

Following a positive start to 2H20, which saw a continuation of the early signs of market improvement, the impact of COVID-19 on the economy since early March 2020 has presented a range of challenges across the Group.

Peet Limited Managing Director and Chief Executive Officer, Brendan Gore, commented that the restrictions implemented by governments in response to the COVID-19 outbreak, as well as Peet's proactive response in adapting to an uncertain and fluid environment has significantly impacted the Group's operations.

"With the onset of COVID-19, Peet proactively implemented a range of measures to protect the safety of employees and other stakeholders, as well as capital management initiatives to shore up liquidity and protect the balance sheet," said Mr Gore.

1 Includes equivalent lots.

2 Operating profit is a non-IFRS measure that is determined to present the ongoing activities of the Group in a way that reflects its operating performance. Operating profit excludes unrealised fair value gains/(losses) arising from the effect of revaluing assets and liabilities and adjustments for realised transactions outside the core ongoing business activities, including the provision of c.$45 million after tax noted in this announcement.

Some of the initiatives implemented include:

- prioritising the safety and wellbeing of Peet's employees, customers and residents. In respect to its employees, Peet adapted its work-place practices to implement working from home for approximately 85% of the Peet Team and enhanced the safety of its sales office-based employees;
- a reduction or deferral of non-essential variable operating expenditures and corporate overheads, including placing a freeze on remuneration and implementing other cost saving measures;
- a voluntary 20% reduction in Directors' fees and the fixed salaries of Leadership Team members for a three-month period commencing in May 2020 which is subject to further review in July 2020; and
- a temporary 20% reduction in working hours across the balance of the Peet Team (with a pro-rata reduction in base pay).

Sales activity continued to improve in the first two months of CY2020, however the impact of the COVID-19 pandemic and associated restrictions contributed to lower sales in April 2020 on the back of lower customer traffic and enquiry levels during the latter part of March 2020.

Enquiry levels and digital traffic recovered strongly in April 2020, with Peet's sales offices generally fully operational in WA, ACT/NSW, SA and QLD with the easing of government restrictions. The introduction of Government stimulus (including the Federal Government's HomeBuilder grant and the WA State Government's Building Bonus package) has resulted in a significant increase in enquiries and sales across the Group's portfolio in the latter half of the June 2020 quarter.

"Enquiry levels increased by 75% during the quarter ended 30 June 2020, compared to the quarter ended 31 March 2020. Sales increased 57% compared to the quarter ended 31 March 2020 and 25% compared to the quarter ended 31 December 2019. Settlements are completing within similar timeframes to pre-COVID-19 levels and the cancellation rate is normalising," said Mr Gore.

Peet remains strategically focussed on planning and creating liveable communities and homes targeting the low to middle market segment, which is expected to benefit materially from State and Federal Government stimulus.

At 30 June 2020, there were 1,786 contracts on hand[3], with a gross value of $427.7 million, compared with 1,257 contracts on hand[3] as at 30 June 2019, with a gross value of $335.5 million. This represents an increase of 42% in contracts on hand[3] and a 27% increase in contract value, providing positive momentum as the Group enters FY21.

Capital management

The Group entered 2H20 in a strong capital position, which allowed it to proactively implement capital management initiatives in response to COVID-19.

3 Includes equivalent lots.

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These initiatives included:

- the deferral of the commencement of new projects;
- minimising development capital expenditure to reflect management forecasts for COVID-19 sales rates pre-Government stimulus; and
- a strong focus on managing the settlement risk of 1H20 contracts on hand.

Peet enters FY21 with cash and debt facility headroom of more than $130 million as at 30 June 2020. It has the capacity to accelerate delivery of product to meet the material increase in demand arising from the introduction of Government stimulus.

“Additionally, pre-emptive discussions with the Group’s syndicate of banks has resulted in variations to our senior debt facility, which have provided a waiver of the measurement of the Group’s debt covenants out to 30 June 2021, taking account of the Group’s COVID-19 responses and the organisational restructure being implemented,” said Mr Gore.

Right-sizing cost base and strengthening capital position

While the Group remains in a solid financial position and is expected to benefit from recent Government stimulus, it continues to remain cautious on the outlook for FY21 and is seeking to position itself positively to a post COVID-19 environment.

Mr Gore commented that Peet has continually focussed on reducing its fixed corporate overhead and efficiently managing its asset base with a view to maximising returns on invested capital.

“Over the last several years, the Group has been investing in its information and digital platforms to improve the efficiency of its workflows and the gathering of data to drive enquiry and increase sales. At the same time, the Group continually reviews its c.48,000-lot portfolio to identify opportunities to recycle capital,” said Mr Gore.

With a view to resetting the focus of the business on key growth corridors around the country, Peet will seek to divest non-core projects, including regional and sub-regional projects. The expectation is that this will result in the recycling of c.$75 million of capital over the next 18 to 24 months to further strengthen the Group’s balance sheet. This will assist in streamlining the business and simplifying its operating structure.

“The efficiencies arising from the investment in internal system improvements and the divestment of a number of projects have meant making some difficult decisions, including reducing the number of people employed by the Group. This is an unfortunate outcome and is in no way a reflection of their value or contribution to the Group. These decisions are difficult but necessary to ensure the Group is well positioned for the post-COVID-19 environment and to consider investment opportunities should they arise,” said Mr Gore.

It’s expected that these measures will result in annualised overhead and fixed cost savings of $5-7 million once fully implemented in 2H21, and in a one-off provision of c.$45 million after tax in FY20.

The pro-forma balance sheet NTA[4] at 30 June 2020 is expected to be (subject to audit) $1.10 per share ($1.18 at 31 December 2019). This does not include the value of Peet's Funds Management business.

Outlook

Although low interest rates, accommodating credit conditions and Government stimulus are positive for the residential sector, the Group continues to adopt a cautious approach as it enters FY21.

"There remain uncertainties around the impact of the roll-off of Government stimulus, including on the rate of unemployment and the short to medium term impact of COVID-19 on the Federal Government's immigration policy.

"While Peet is well placed to respond and is responding to the increase in demand resulting from the Federal Government's HomeBuilder and various other State Governments' residential-focused initiatives, Peet will continue to defer commencements of new projects, subject to more clarity on the sustainability of a market recovery," said Mr Gore.

As announced at the half-year, FY20 earnings are lower than FY19 and subject to final audit, the FY20 operating profit[5] after tax is expected to be in the range of $14-$16 million.

This announcement is authorised for release to the market by the Board of Peet Limited.

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4 NTA before application of *AASB 16 Leases.*

5 Operating profit is a non-IFRS measure that is determined to present the ongoing activities of the Group in a way that reflects its operating performance. Operating profit excludes unrealised fair value gains/(losses) arising from the effect of revaluing assets and liabilities and adjustments for realised transactions outside the core ongoing business activities, including the provision of c.$45 million after tax noted in this announcement.