

15 May 2019

VILLA WORLD LIMITED ABN 38 117 546 326 ASX CODE: VLW

3Q19 Operational Update

Operational update

As has been widely reported, Australia's residential housing market conditions and customer sentiment declined in late CY18, and have remained subdued to date in CY19. The Company has recorded 783 sales for the financial year to the end of April 2019, including 266 sales during the first four months of CY19.

Customers continue to experience a reduction in the availability of finance and delayed finance approvals. As a result, both carried forward sales and new sales are taking longer than anticipated to settle. This will see approximately 80 to 115 settlements previously expected in 2H19 to now settle in FY20.

Victoria

During 3Q19, the Company focused on delivery of the first stages at *Lilium* (Clyde, Melbourne) where there are significant unconditional sales. Stages 1 and 2 have been produced in May 2019 and settlements are scheduled to commence later this month. Stages 3 and 4 are expected to be delivered and commence settling in June 2019.

For stage 1 at *Sienna Rise* and stage 1 at *Sienna North* (Melbourne North West), where the Company is also carrying significant unconditional sales, it is now expected that delivery and settlements will occur in 1H20.

Queensland

Our well established flagship projects *The Meadows* (Strathpine), *Killara* and *Chambers Ridge* in Logan City and *Arundel Springs* (Gold Coast) have seen some improvement in sale conditions over recent months.

New South Wales

Sales have improved at *Allure*, Box Hill while sales conditions remain challenging in South-West Sydney.

Outlook

Consistent with the approach outlined in the Company's announcement to the ASX on 14 December 2018, and in its 1H19 results, the uncertain outlook for the sector and the continued uncertainty of sales and settlement timing means that the Company will not be providing guidance for FY19.

The Company currently expects that the FY19 gross margin will be within the target range of 23% to 25%. The Company anticipates that customer sentiment is likely to improve following the Federal election, and that finance conditions may free up during the second half of CY19, as lenders work through the repercussions of the Banking Royal Commission.

The Company has continued to work on invigorating its sales strategy to highlight its value across the affordable housing sector. The business cost structure continues to be managed in light of current trading conditions, with the results likely to mostly impact FY20.

Villa World has conviction that its projects are located where people want to live, its homes are priced within the reach of its customers and its turnkey homes offer a unique customer experience. The Company has strong carried forward sales being carried into FY20 and beyond which combined with sound financial fundamentals, prudent capital management and a committed team, gives the Company the platform to continue to deliver shareholder value beyond the current sector dynamics.

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**2H19 dividend**

The Board recognises the importance of returns to shareholder through fully franked dividends, as reflected in its stated dividend policy of a payout ratio of 50% to 75% of annual NPAT, paid semi-annually.

The Board will give further consideration to the 2H19 dividend once there is further clarity regarding the Company's FY19 results. Any 2H19 dividend will also need to be considered in light of the AVID acquisition proposal, given that the offer price of \$2.345 per share will be reduced by any dividends that shareholders become entitled to receive on or after 1 May 2019 (being the date of AVID's revised proposal).

AVID Proposal

As announced to ASX on 2 May 2019, AVID has been granted due diligence access, exclusively on customary terms, to facilitate a binding proposal for 100% of the shares in the Company at \$2.345¹ per share. The Company is working closely with AVID to facilitate its due diligence investigations. There is, however, no guarantee that a transaction will result. Villa World shareholders therefore do not need to take any action in relation to the AVID Proposal at this stage.

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¹ Under the terms of AVID's revised proposal, the consideration will be reduced by the amount of any dividends or distributions paid by Villa World after the date of the revised proposal, but will not be reduced by the 1H19 dividend of \$0.08 per share paid on 2 April 2019. Refer to Villa World ASX announcement on 2 May 2019 for further information.

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