



**ASX
ANNOUNCEMENT**



22 May 2019

CHAIRMAN'S ADDRESS TO SHAREHOLDERS

Attached, in accordance with listing Rule 3.13.3, is a copy of the speech to be delivered by Devine Chairman, David Robinson, at the company's Annual General Meeting today.

ENDS

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Introduction

Before we commence the formal part of the meeting, I would like to provide an overview of our position and update you on our performance during 2018.

At the AGM last year, I advised you of the steps we took to improve the stability of the business from a funding, operational and claims position.

Since then, we have made further progress, and our financial outlook is more stabilised.

Our progress during 2018 included:

- Finalising a number of legacy issues;
- Accelerating sales and construction activity in parts of our Communities business; and
- Extending the term of our primary financing facility.

Whilst this is progress, it remains the case that there is still a lot to achieve.

First, let's look at the progress in 2018.

Financial results

Our 2018 financial results comprised:

- Revenue from continuing operations of \$56.9 million
- A loss before tax from continuing operations of \$23.9 million;
- A total loss after tax of \$25.2 million
- Net assets of \$94 million; and
- Debt of \$36 million

Contributing to this position was asset impairments of \$41.9 million taken across the Communities business projects of:

- Riverparks, Mountview and Brookside in Queensland;
- Mawson Green in South Australia; and
- Newbridge in Victoria.

Offsetting these by \$22.9 million was the favourable settlement of two insurance claims and the extension of a land management agreement.

We continue to pursue a number of other contractual and insurance claims for the reimbursement of costs arising from legacy construction contracts. These may either result in commercial resolutions during 2019 or longer legal processes.



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The land development business continued to return cash, which assisted with further financial stability.

In addition, our operations continue to generate efficiencies and cost savings as a result of re-sizing initiatives undertaken in prior years, providing a platform to support growth when the market allows.

Operational review of 2018

Operationally, the key highlights for the year included:

- The performance at the Stonehill project, in Victoria;
- The extension of a land management agreement for Orleana Waters in South Australia;
- Securing a funding facility for two years;
- Paying down of a number of project debt facilities;
- The englobo sale of approximately half the Newbridge land holding, in Victoria; and
- Settling two further insurance claims.

Devine Communities

Turning first to Devine Communities.

We had a total of 316 residential land sales and 329 residential land settlements during 2018, including a single englobo site with the equivalent of 423 lots.

The **Stonehill** project in Victoria was the strongest performer as we released a further eight stages of land during 2018 and accelerated off-plan sales and construction activity to leverage the Victorian residential market.

Presales at Stonehill achieved the potential for delivery of more than 200 residential lots during 2019, which would result in a positive return and cash flow for 2019.

We also:

- Settled 255 allotments, including a 3.5 hectare school site, realising \$47 million in joint venture revenue;
- Released six new stages that will enable the delivery of up to 150 settlements in 2019; and
- Commenced construction on 230 residential lots.

We have also seen progress at our joint venture land development project **Newbridge**, at Wallan in Victoria.



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A total of 59 residential lots have been settled and the remaining 356 lots have been brought to market.

Of these, more than 260 lots have been pre-sold, which will assist us to recycle capital from the project.

We also:

- Advanced progress on three stages, providing a pipeline settlements for 2019;
- Settled an undeveloped land holding, generating a cash return of \$11.5 million; and
- Settled the project's 3.5 hectare school site with the Catholic Archdiocese of Melbourne.

Our projects in South Australia – **Mawson Green** at Meadows and **Orleana Waters** at Evanston Gardens – continued to generate stable turnover.

Sales rates are in line with the market in Adelaide, hampered by weak conditions in the greenfield development markets across the city.

Despite this, Orleana Waters and Mawson Green have provided some stable results and made progress in reducing the volume of unsold titled stock.

We concluded negotiations for an extension to the Orleana Waters Land Management Agreement. This provides certainty as we continue to leverage the market position the project holds through to its completion.

In Queensland the conditional sale of the **Mountview** Junction 2 project is forecast to settle during 2019.

Devine Developments

In our Devine Developments division, we had a total of 43 apartment settlements and 30 apartment sales during 2018.

Our **Mode Apartments** project at Newstead in Brisbane continued to trade through the apartment inventory remaining since the completion of the building in mid-2017.

Of the 157 apartments developed, 153 had settled by the end of 2018 and the four remaining units have settled in the first quarter of this year, finalising a successful joint venture development.

Funding arrangements

Turning now to our funding arrangements.



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During the year our primary funding facility of \$70 million was renewed, providing a financial base for the ongoing operation of the business.

ANZ extended the facility for a term of two years, expiring on 29 March 2020.

The successful extension of this funding was critically important to our business, providing certainty for a further two years and the capacity to manage movements in our total debt.

It also allows management to focus on our core Communities land development business unit.

The facility is secured by a guarantee provided by our majority shareholder, CIMIC Group.

During the year the drawn amount on this facility decreased by \$9.1 million to \$36 million, project debt on the Stonehill development was reduced to zero, while the land debt on the Wallan development was reduced by \$10.3 million.

With a focus on constraining costs, we also reviewed and reduced the level of securities, such as bank guarantees and insurance bonds, required to be provided as part of our operations.

This resulted in a \$2.9 million reduction in bonding and guarantees over the year to \$18.8 million as at December 2018. A further net reduction in these securities of \$4.7 million has been achieved to April 2019.

Focus for 2019

This brings me to 2019 and our focus for the year ahead.

John Campbell, who joined us as Chief Executive Officer in July last year, and James Mackay, our Chief Financial Officer, are continuing to execute our property development objectives.

Our focus is to advance existing projects in the Communities land development business including our residential development pipeline of approximately 4,900 future allotments.

We will also further position Devine to consider new development projects by taking a low-capital intensive approach for future development opportunities, working in partnership with land owners. This is particularly the case given the present conditions of our property markets.

We will target projects of appropriate scale in market corridors with existing demand, and take a considered and strategic approach.



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We will also continue to monitor the commercial opportunities within our portfolio. These are centred on the KSD2 site in the Brisbane suburb of Hamilton.

Resolving the remaining contractual and insurance claims in the construction business also continues to be a priority.

As I mentioned at the outset, we have made progress on this last year, resulting in the receipt of \$14.5 million.

We want to maximise Devine's working capital by further pursuing our entitlements to funds which are owed to us.

Details of the remaining claims, including the amounts and the debtors, are commercially sensitive.

As the outcomes may be negotiated or taken through a court process, we cannot be sure of the final position.

Conclusion

Coming now to our future.

Market conditions

Market conditions in our various communities and land markets are mixed.

Figures released earlier this year show that the residential building market declined throughout 2018. State by state the conditions vary.

In Victoria, the previously strong property market conditions of 2017 have slowed, with Melbourne's sales volumes and price growth declining.

Much of the decline is being driven by the top end of the market with lower value properties impacted to a lesser degree, driving higher levels of activity in this segment.

In Queensland, building approvals have followed the national decline, and new homes sales have also fallen, pointing to a weaker pipeline of activity for 2019.

Land sales in the markets of Gladstone and Townsville continue to experience low demand and we are monitoring these markets, ready to respond when demand returns. I'd like to note that our Townsville site was fortunately unaffected by the floods and we are continuing to progress the project as usual.

In South Australia, the housing market remained subdued during 2018 with sales of new homes flat and building approvals declining.



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Outlook

In summary, our financial outlook has stabilised

We have finalised a number of legacy issues and we continue to take actions to preserve our position and maintain business liquidity.

We continue to monitor and respond to developments in the economy, the interest rate environment and the availability of credit.

We will continue to deliver on our property development strategy, principally in the Communities land development business, by driving the development of our existing project portfolio.

We will also continue to monitor the market for commercial development opportunities for our various land holdings and will investigate new opportunities in order to rebuild our pipeline within the constraints of the current financial markets.

And we have an ever present focus on keeping our costs down.

However, while our circumstances have improved, there is more to do to improve the company's position, and we face mixed market conditions.

Given this present position, it is not appropriate to provide guidance for our 2019 full year result.

We remain committed to maximising the value of the business.

I would like to thank you, our shareholders, for your continued support.

I would also like to thank our employees and acknowledge the time they dedicate to our company's future, away from their friends and families.

Thank you.

ENDS