



Lendlease

Performance and Governance Observations

April 2024

IMPORTANT

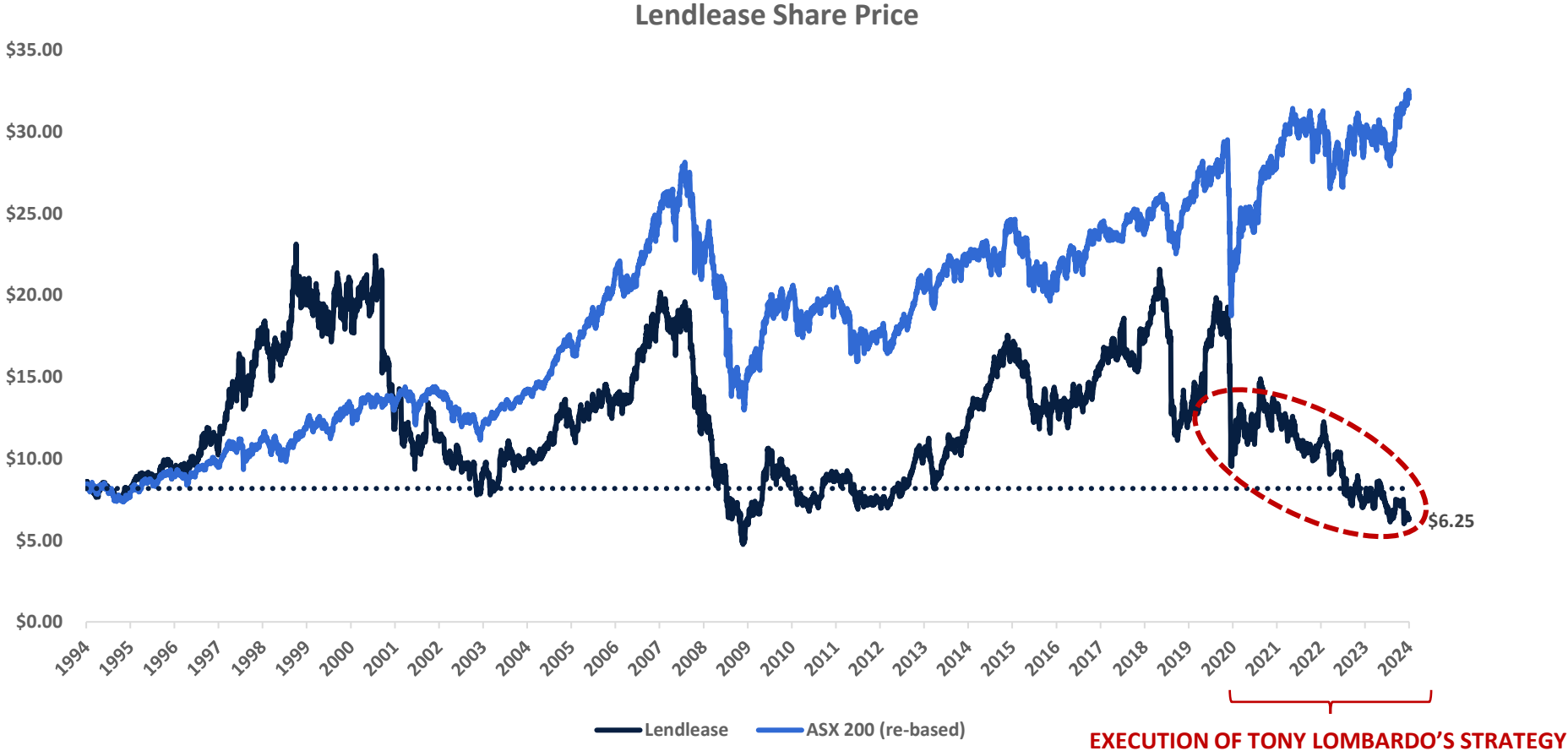
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Performance for Shareholders

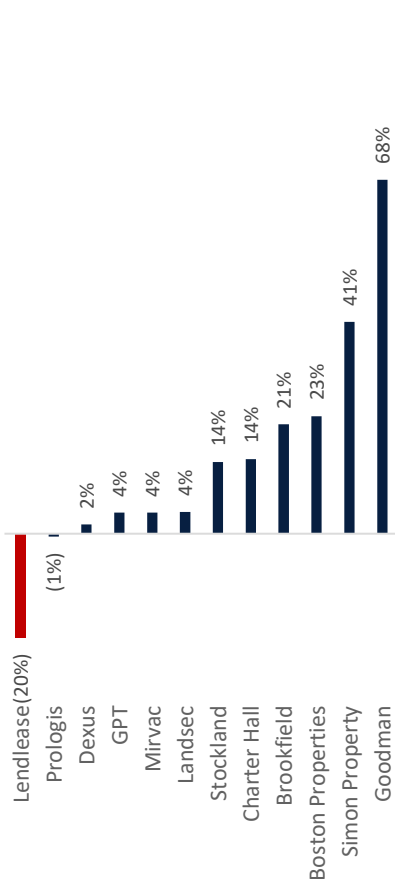
Lendlease's share price is 28% lower than what it was 30 years ago. Decline has accelerated since the implementation of the company's "Reset, Create, Thrive" strategy.



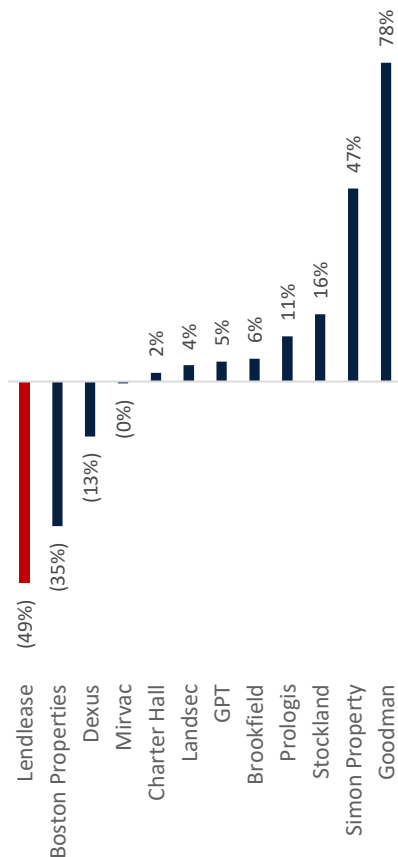
Multiple time periods tell the same story...

TOTAL SHAREHOLDER RETURNS

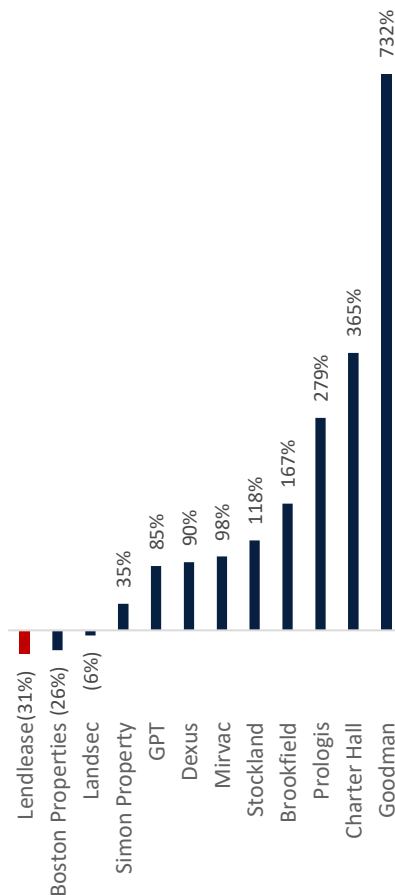
1 YEAR



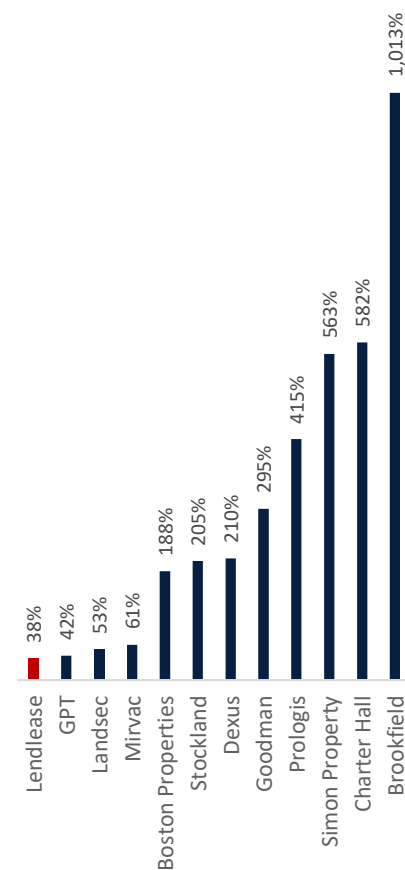
3 YEAR



10 YEAR



20 YEAR



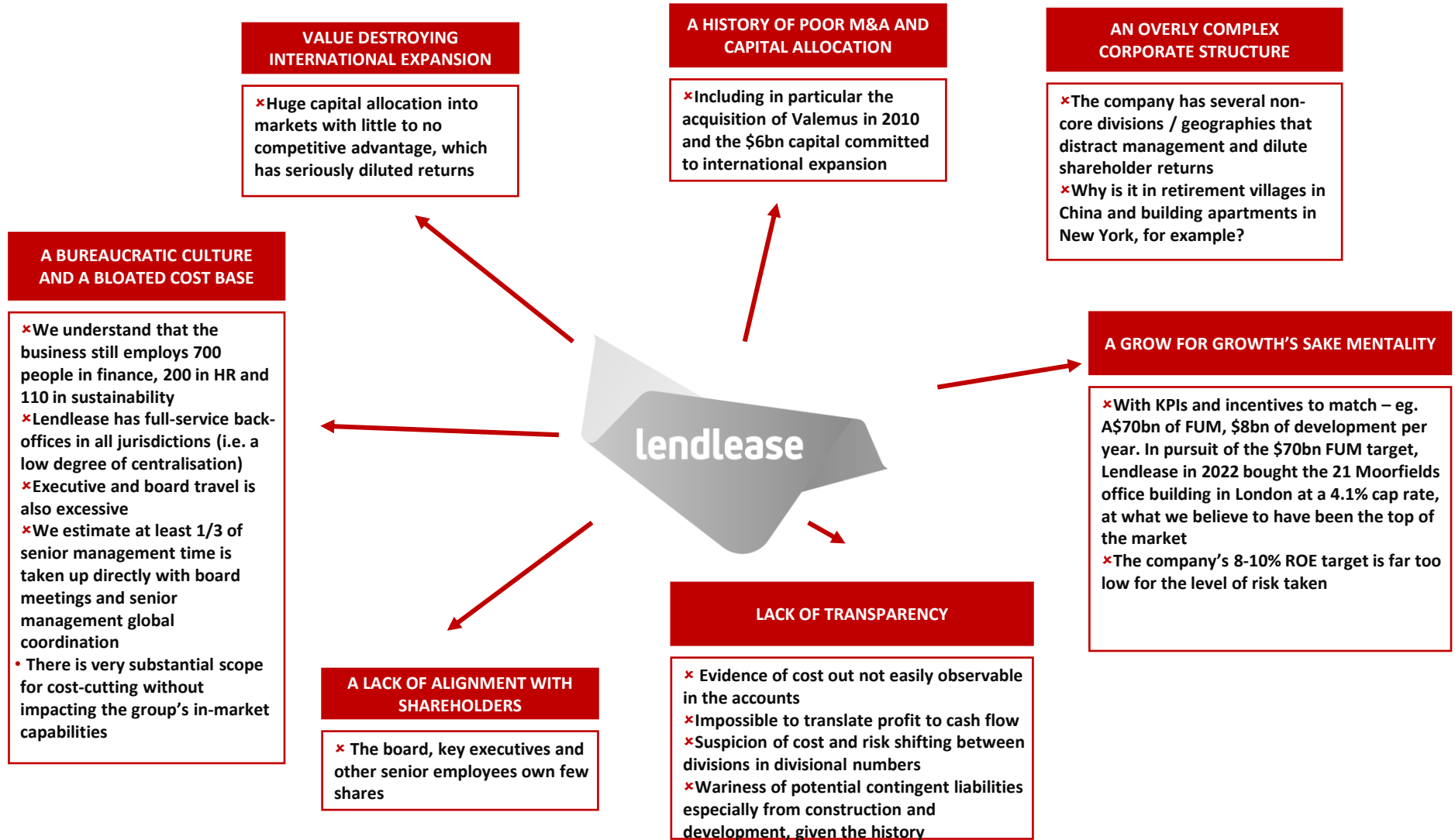
Despite its long-term underperformance, Lendlease has genuine competitive strengths

- Australian market generally
- Strong urban regeneration capabilities in specific markets (e.g. Barangaroo, Sydney) and mixed use developments
- Some good institutional investor relationships
- Social infrastructure construction e.g. hospitals
- Domestic development business with a track record of generating high returns on capital
- Skills in emerging sectors such as build-to-rent



Reasons for Underperformance

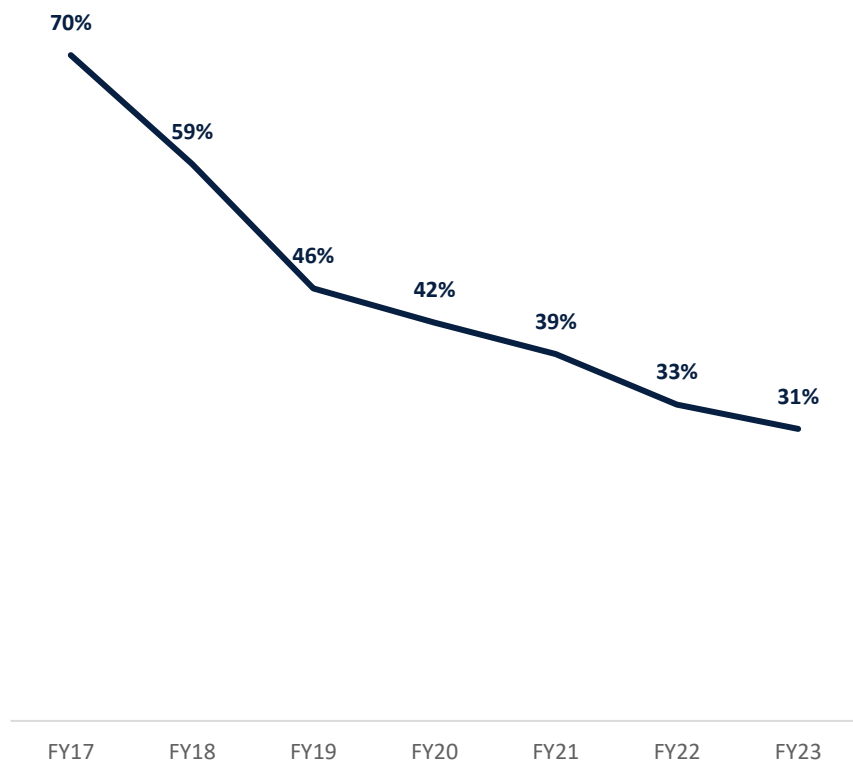
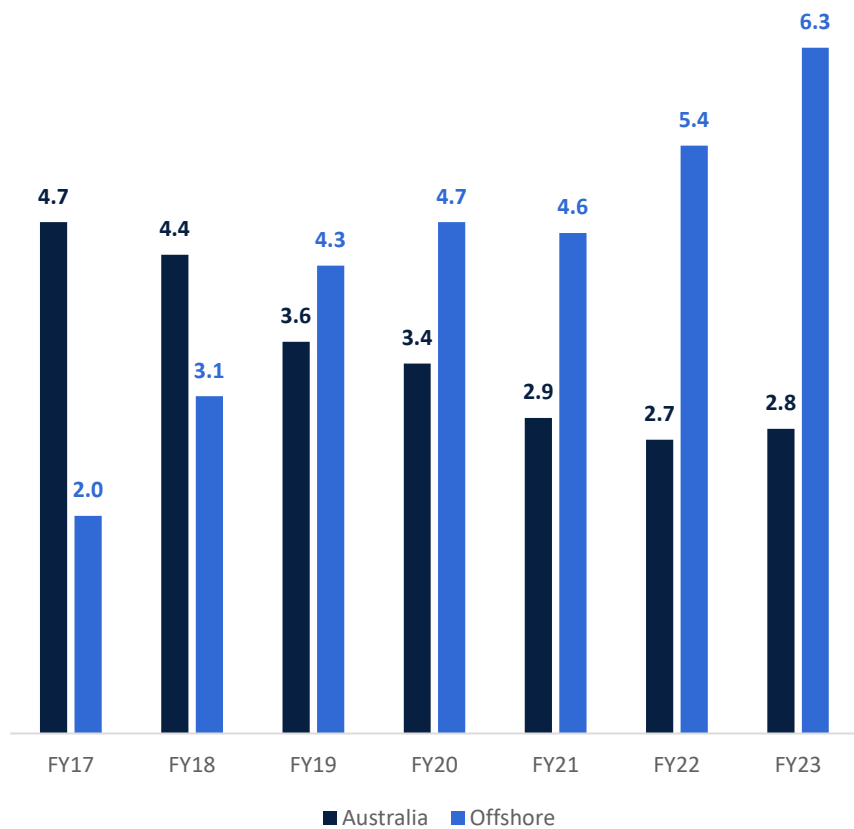
Key problems



Lendlease has shifted the majority of invested capital offshore...

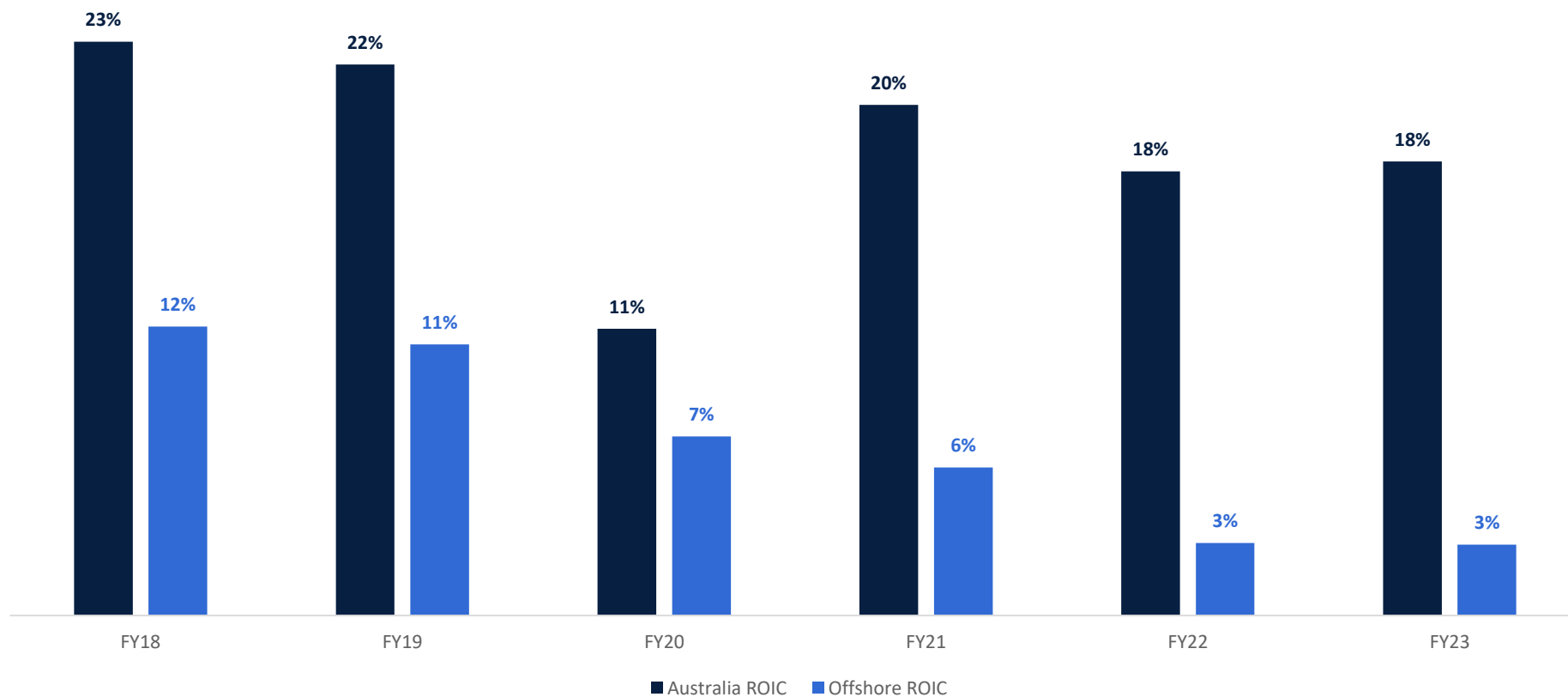
Invested Capital (A\$bn)

Australia % of Invested Capital



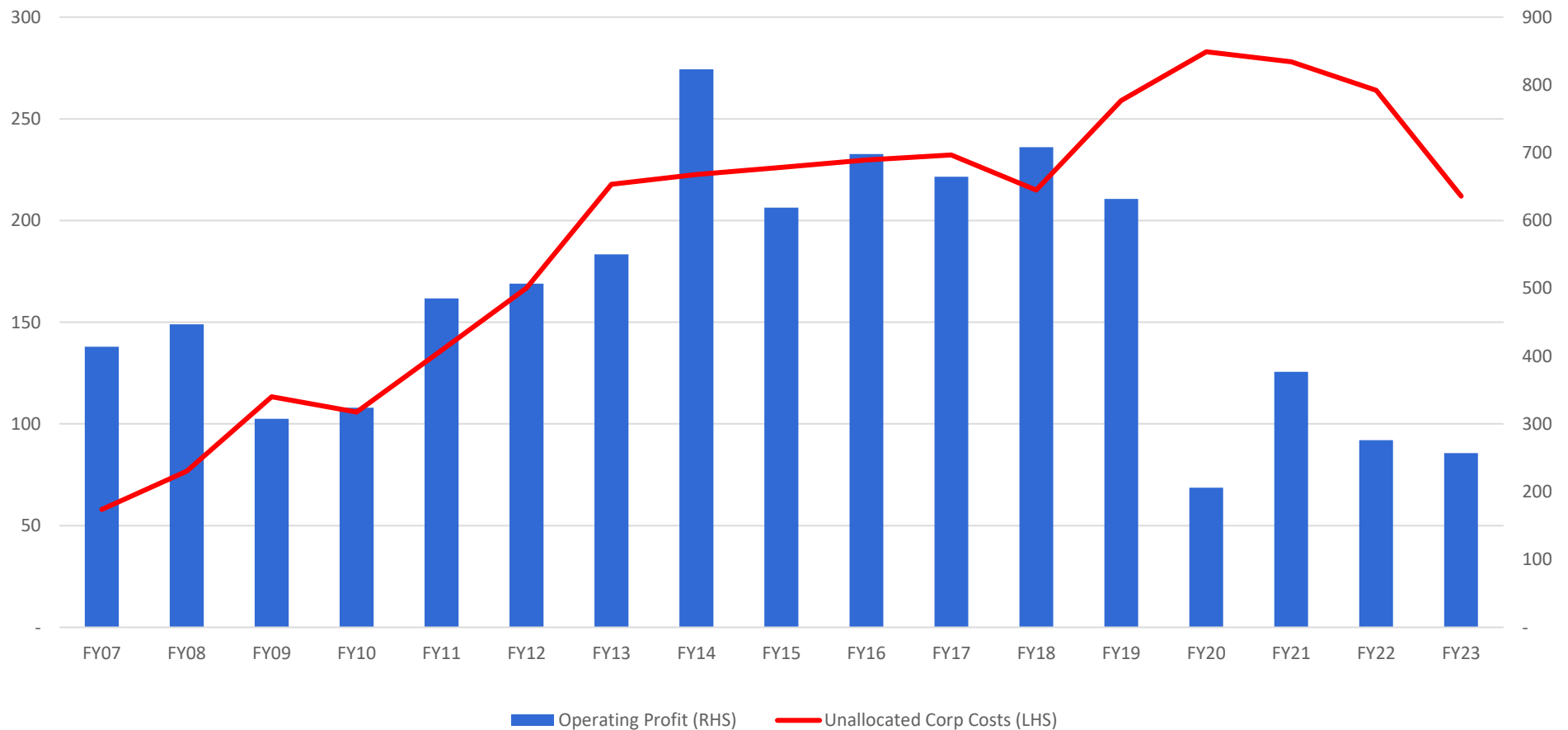
...and offshore returns are poor relative to Australia

EBITDA Return on Invested Capital



Unallocated corporate costs have increased 5x over ~15 years while profits have shrunk

Operating Profit vs. Unallocated Corporate Costs



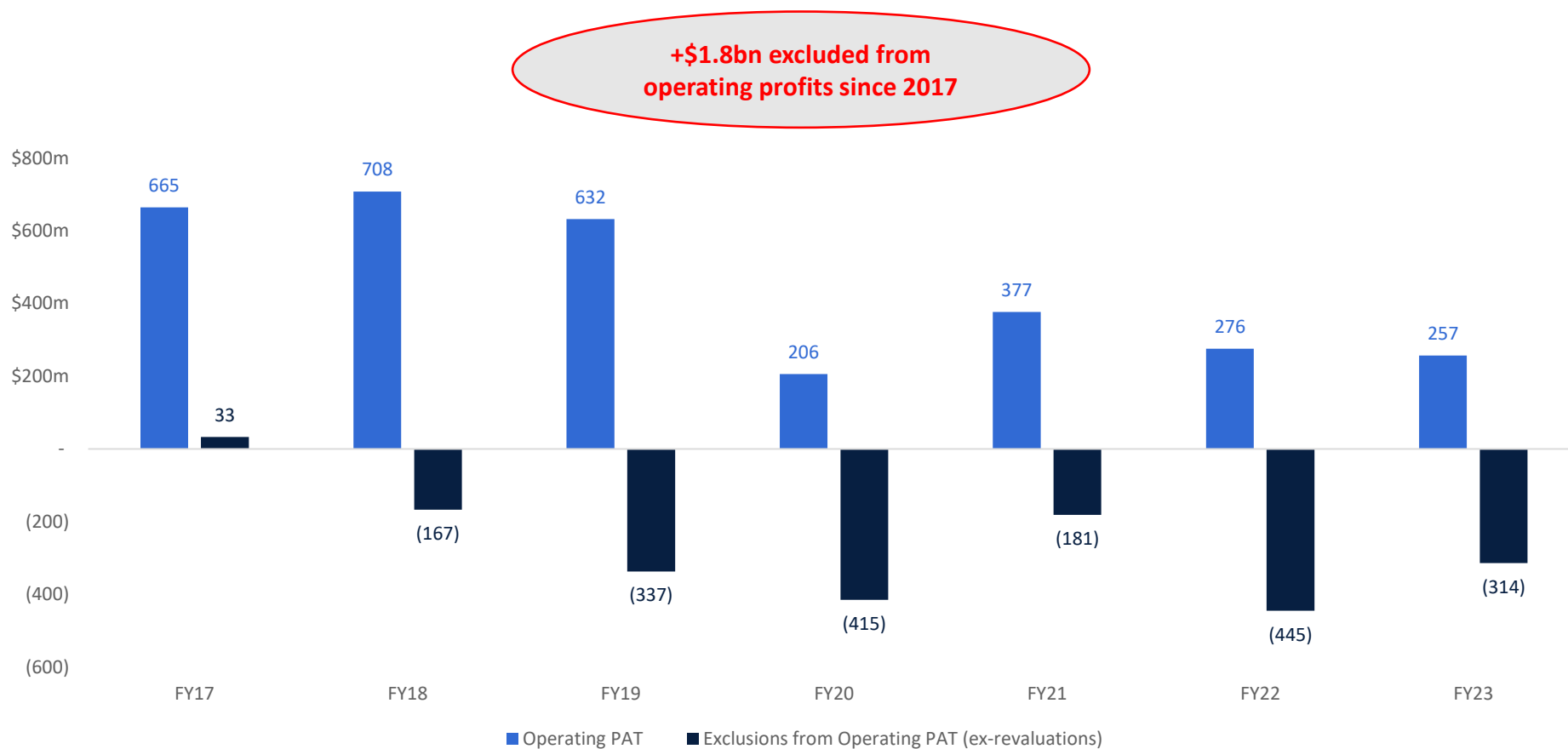
Impossible to reconcile stated cost-outs

- Excerpt below from Lendlease’s 1H24 investor presentation
- Presentation includes the phrases:
 - “Further progress on cost efficiencies; annualised pre-tax savings target of \$150m”
 - “Cost savings of ~\$60m pre-tax remains on track for FY24”
 - “Total FTE reduction of 9% complete (from 30 June 2023) against 10% target for FY24”
 - “Removed >\$170m p.a. of costs [since FY21]”
 - “Actioned further cost savings of >\$150m pre tax”
- Stated benefits of substantial portion of cost savings credited to future development margins, which are impossible to verify and may never materialise

The numbers show a completely different story: No Improvement

\$m	HY23	FY23	HY24	% change
Core				
Investments	197	332	120	(39%)
Development	89	283	112	26%
Construction	68	90	51	(25%)
Segment EBITDA	354	705	283	(20%)
Corporate costs	(76)	(161)	(76)	-
Operating EBITDA	278	544	207	(26%)

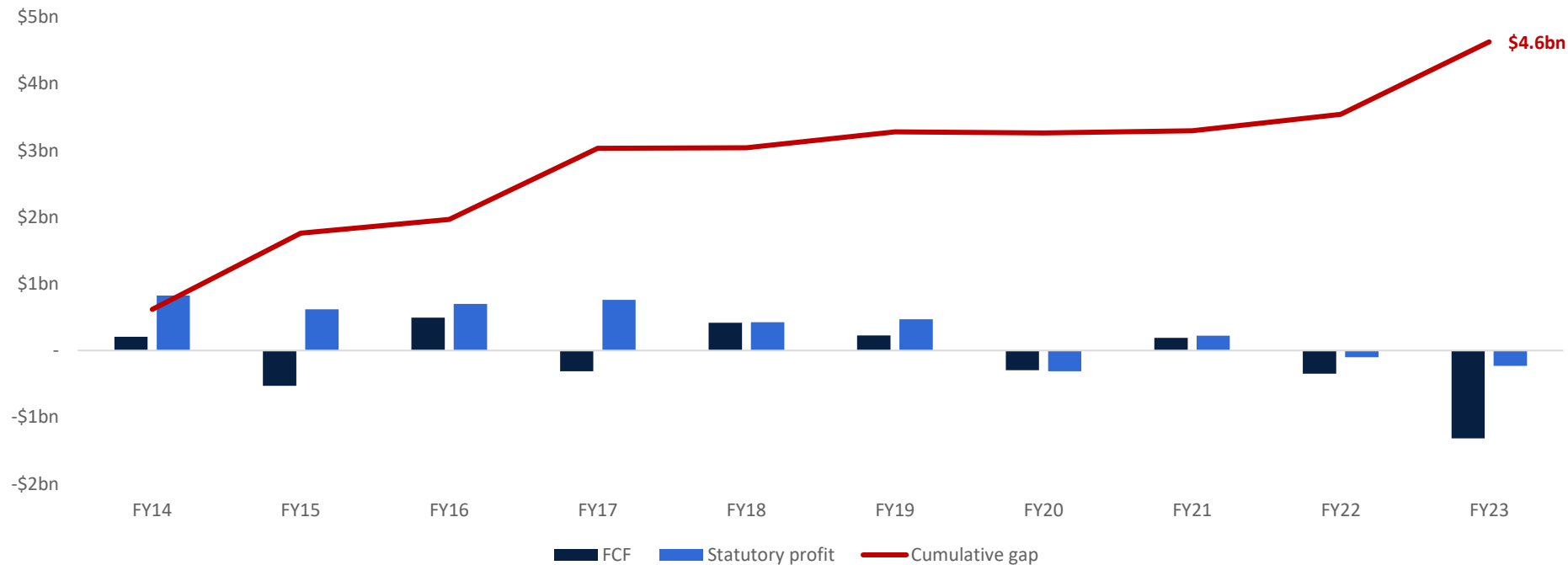
The company has opaque accounts, where operating profit after tax has substantial “exclusions”



This makes the company very difficult to invest in – there is a sense the company is always cum-bad news

Free cash flow generation is vastly different to statutory profits recognised – a \$4.6bn gap since FY14

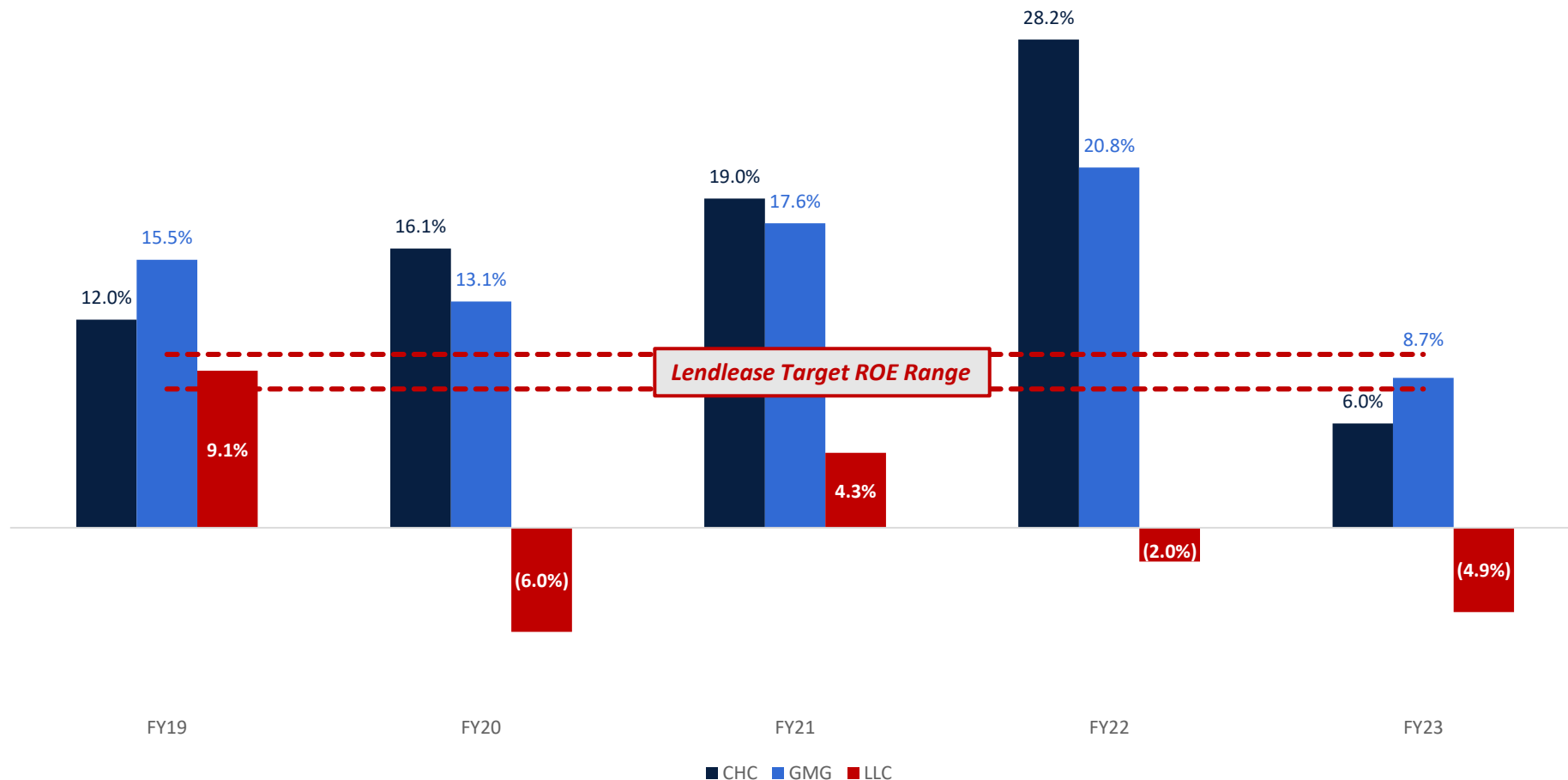
Free Cash Flow vs. Statutory Profit



This makes the company very difficult to invest in – impossible to reconcile accounts

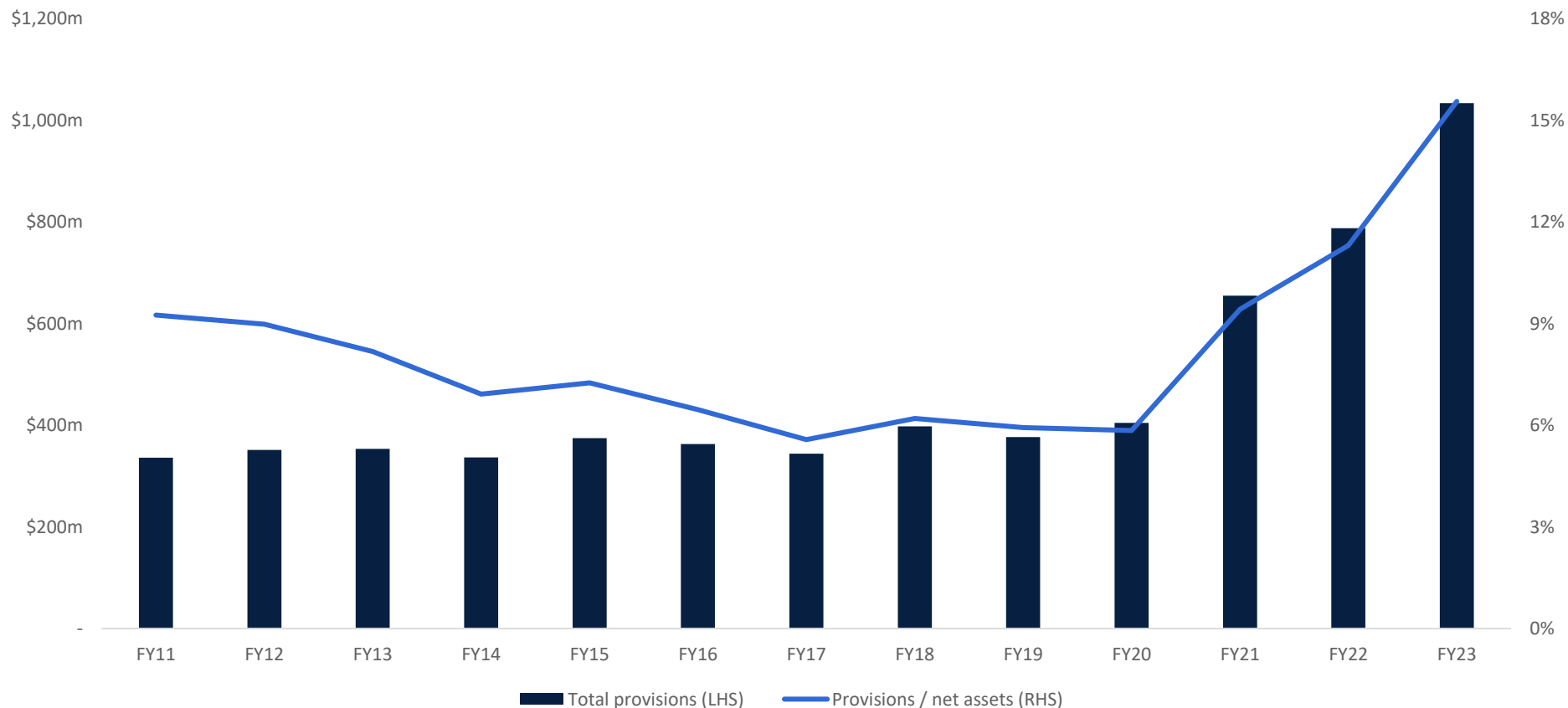
Return on Equity is not even close to peer performance, in fact Lendlease's 8%-10% target is in itself lower than peers (on average)

Return on Equity



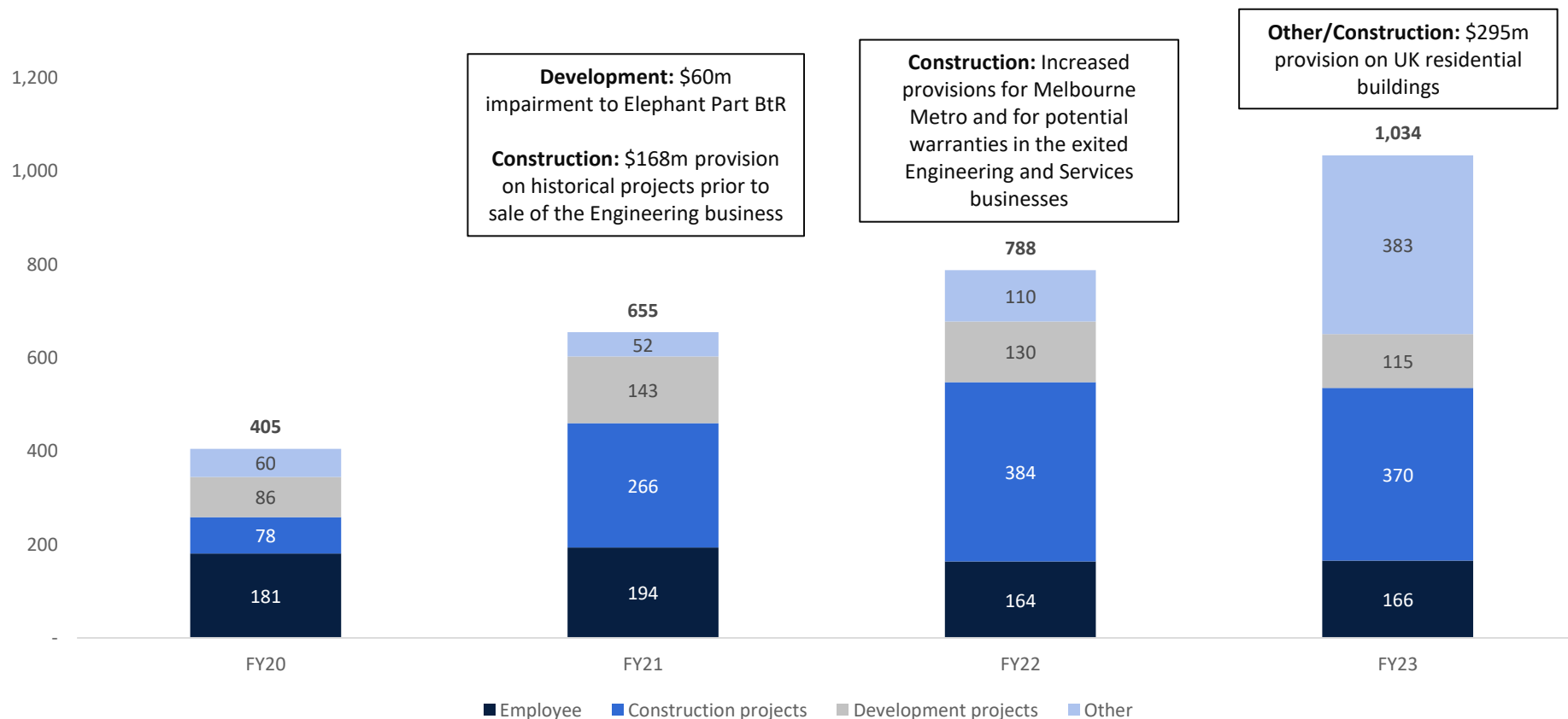
Provisions are >15% of net assets and rising

Book Value of Provisions



In addition to the provisions below, Lendlease also has two contingent liabilities: the Retirement Living tax matter and a securities class action

Book Value of Provisions



Lendlease has downgraded earnings every year since 2021

	Original Expectation	Consensus/Guidance	Revised guidance	Actual result	Outcome
FY21		A\$470m NPAT	A\$375-410m NPAT	A\$377m NPAT	✗
FY22		Development ROIC 2-5%	Development ROIC 2-4%	Development ROIC 2.2%	✗
		Construction margin 2-3%	Construction margin 2-3%	Construction margin 2.0%	✗
		Investment ROIC 5-8%	Investment ROIC 7.5-8.5%	Investment ROIC 9.7% ~6.1% excluding MH sale	✗ ✗
FY23		Development ROIC 4-6%	Lower end of range	Development ROIC 3.3% 1.9% excluding communities	✗ ✗ ✗
		Construction margin 1.5-2.5%	Lower end of range	Construction margin 1.2%	✗ ✗
		Investment ROIC 6-7.5%	Lower end of range	Investment ROIC 6.1% 4.5% excluding MH sale	✗ ✗ ✗
FY24	8-10% ROE	Lower end of 8-10% ROE	~7% ROE 5-6% after excluding communities		✗ ✗ ✗

Source: Morgan Stanley Research and Tanarra estimates

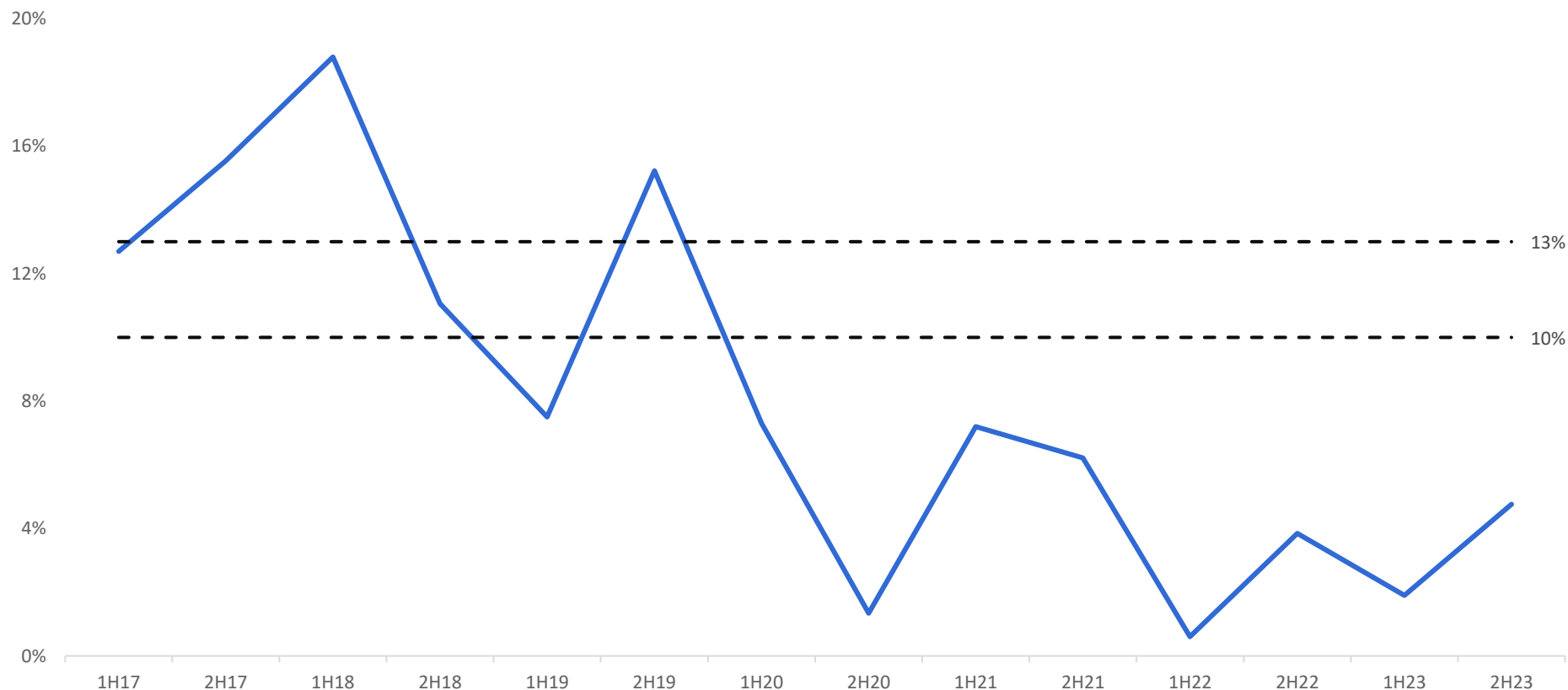


Development

Divisional Observations

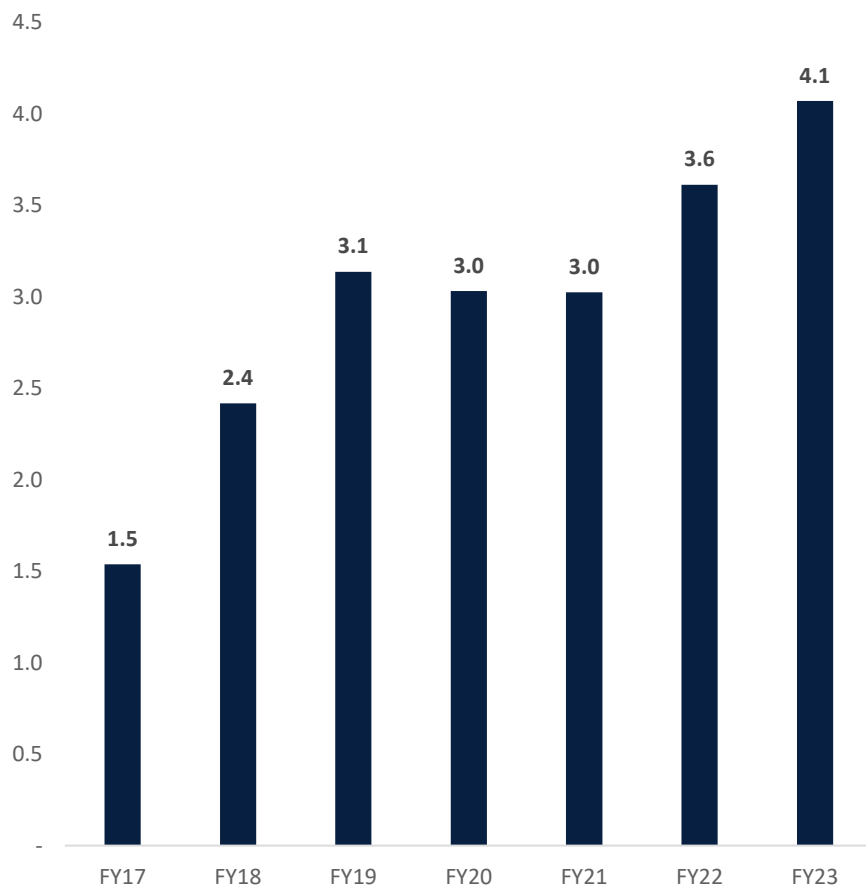
Development ROIC has been on a downward trajectory

Development ROIC vs. 10-13% Target Range

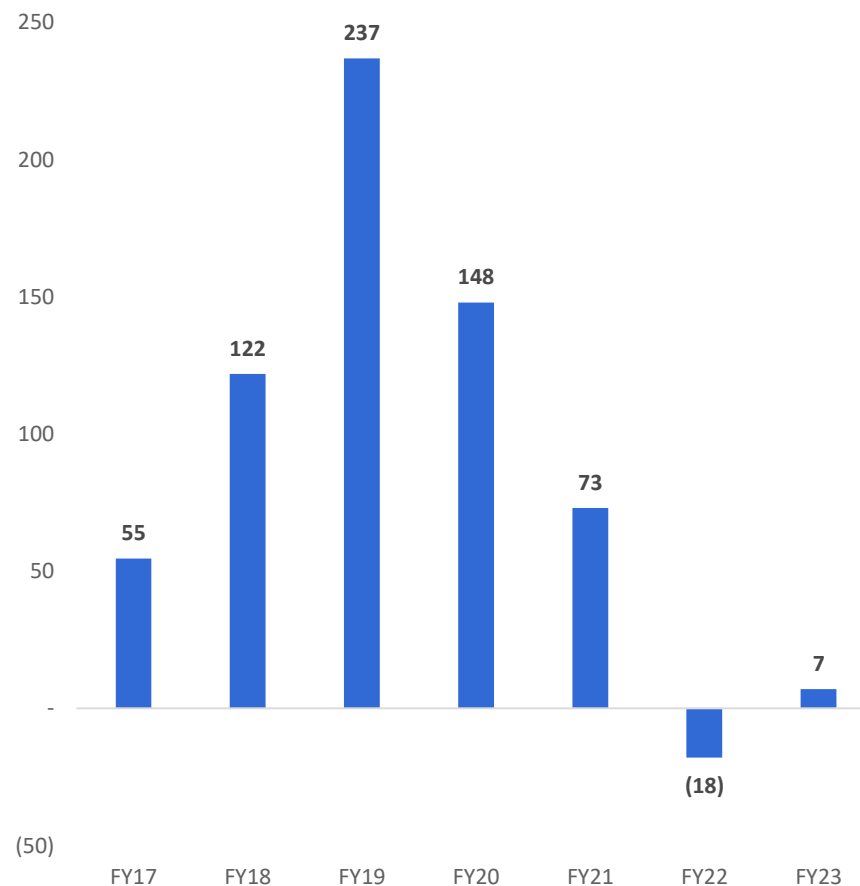


This is because Offshore Development invested capital has increased by \$2.6bn since FY17, for no incremental EBITDA

Offshore Development – Invested Capital (A\$bn)

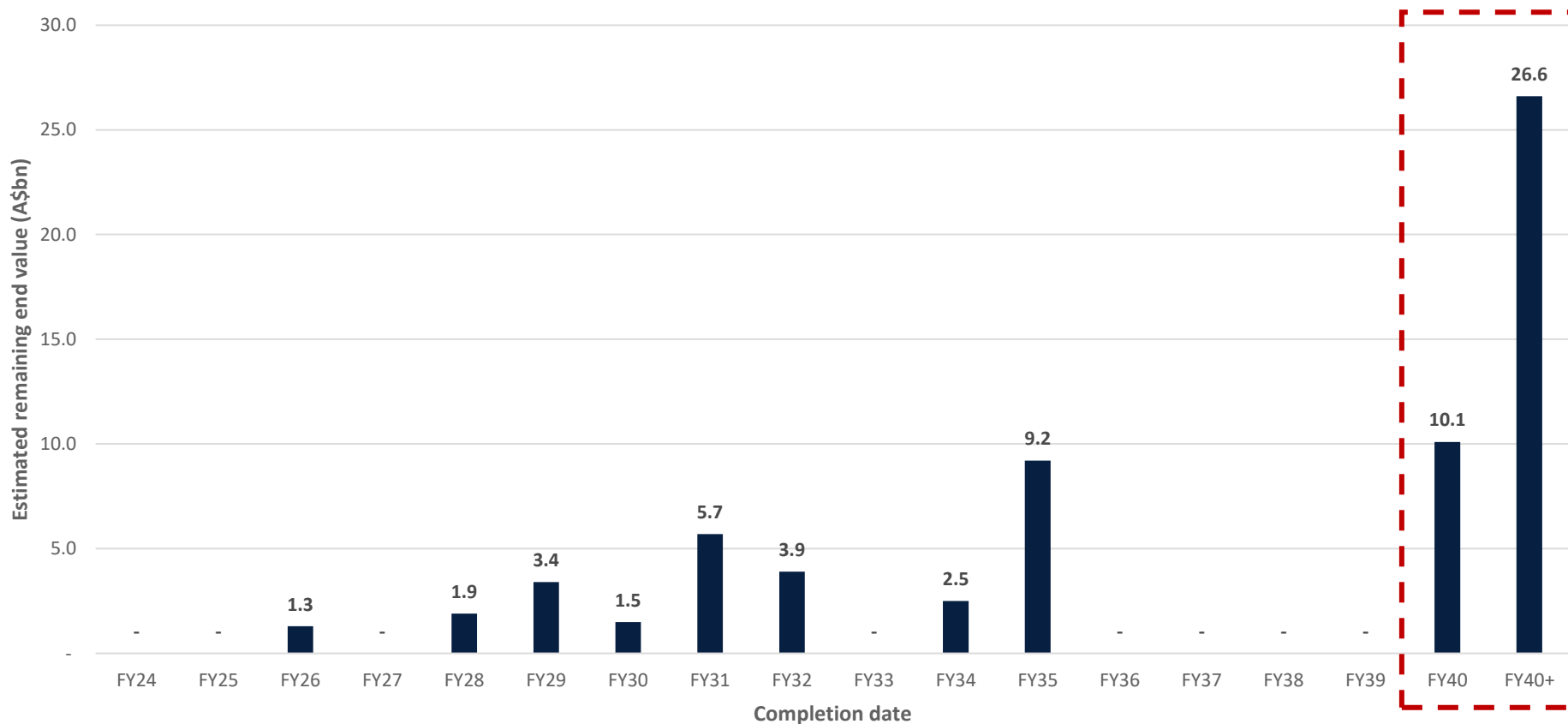


Offshore Development – EBITDA (A\$m)



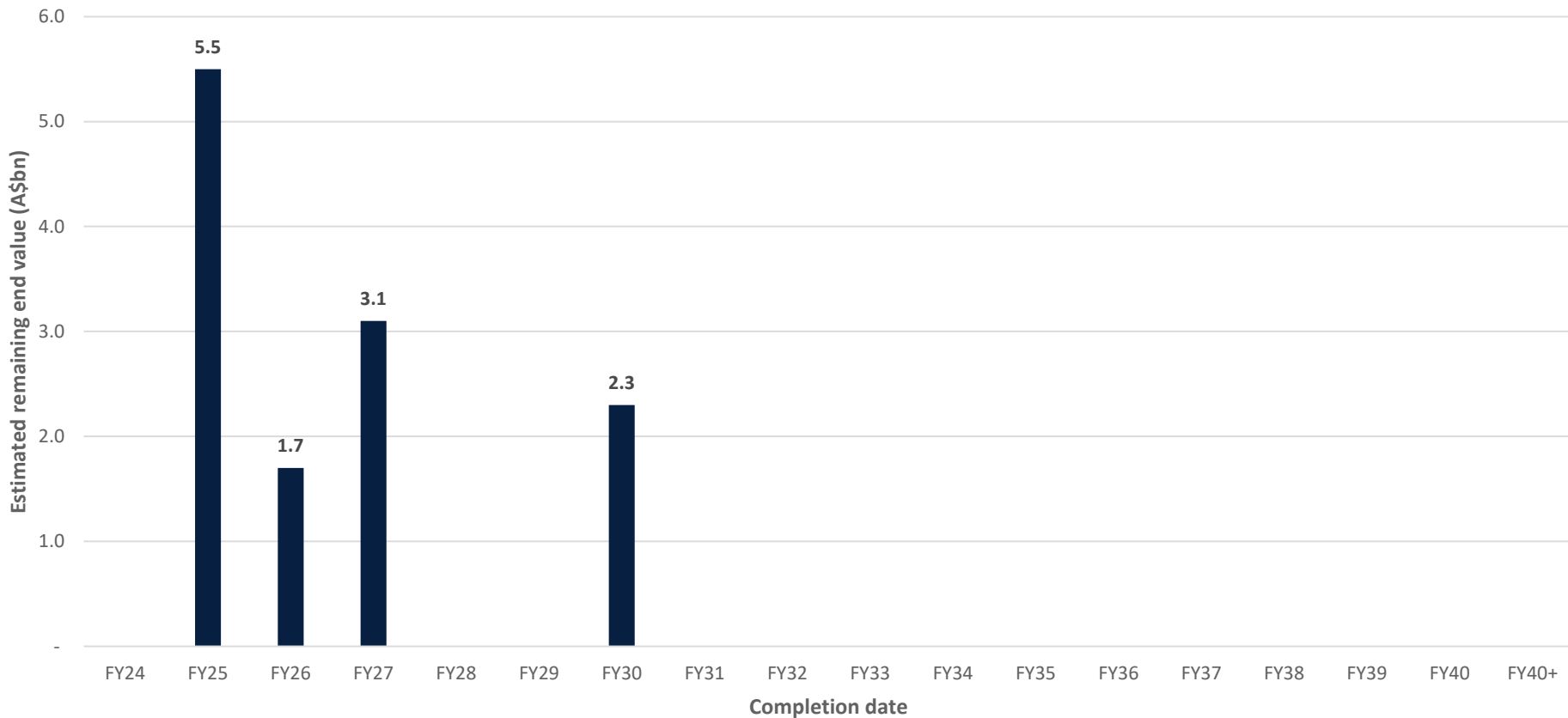
The Offshore Development book is incredibly long dated...

Offshore – Major Urban Project Summary



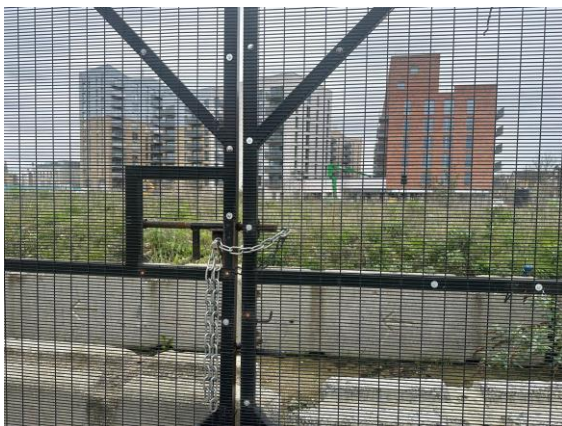
...which is in stark contrast to the Australian portfolio

Australia – Major Urban Project Summary



Current status of several UK projects

DEPTFORD LANDING



Impaired
No workers on site at time of visit

SILVERTOWN



Limited progress
No workers on site at time of visit

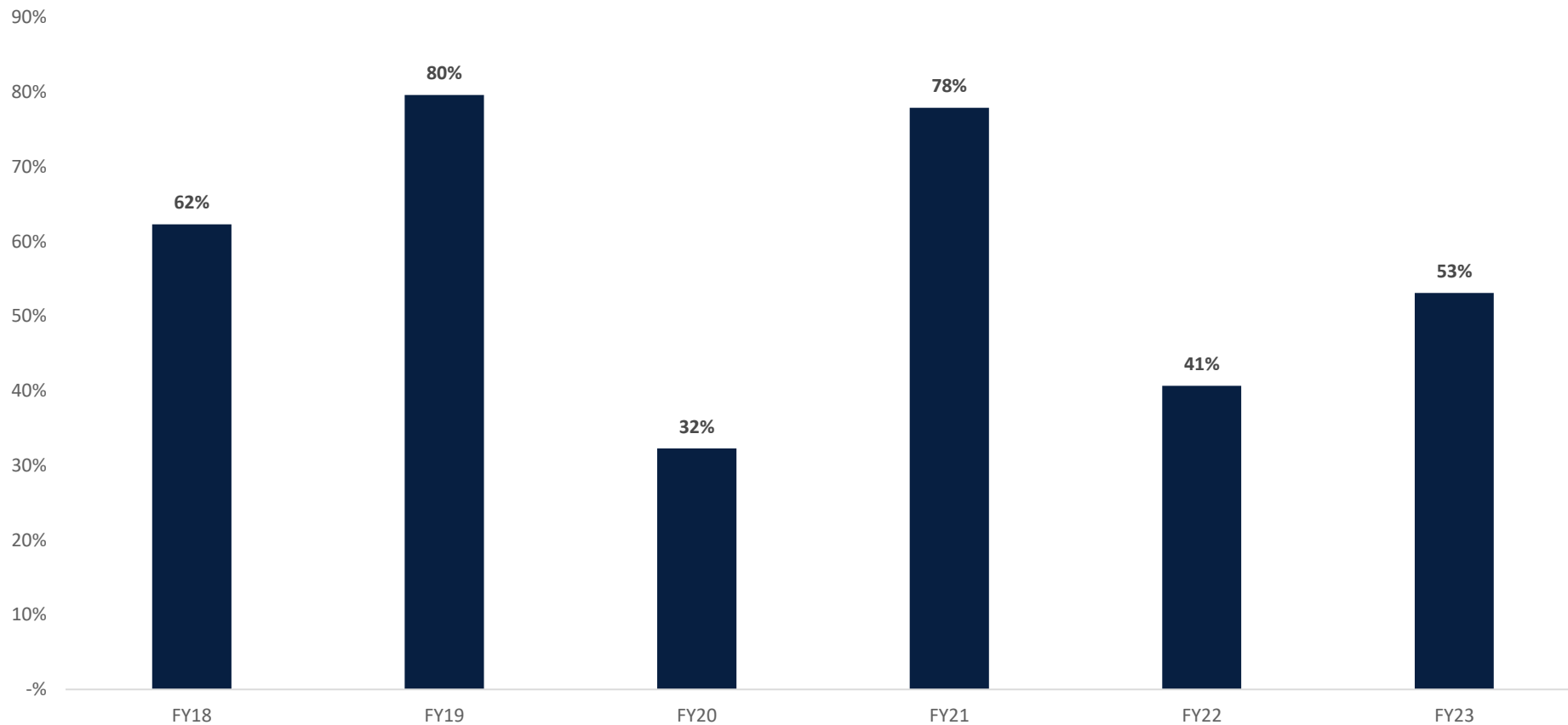
ELEPHANT PARK



Well progressed
Appears to be a good project

Australian Development is both profitable and capital light – which translates to historically attractive returns on invested capital

Australia Development – EBITDA ROIC

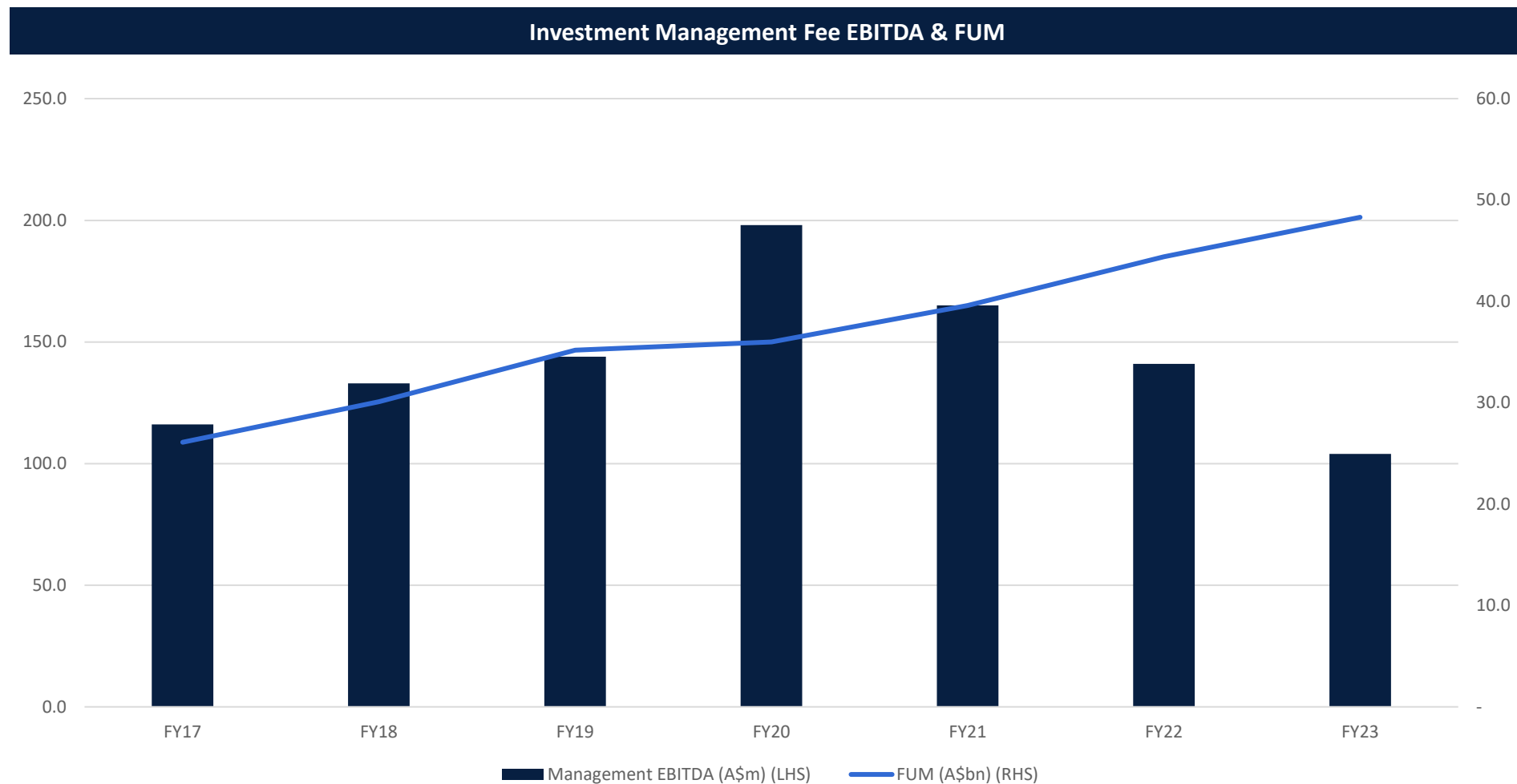




Investments

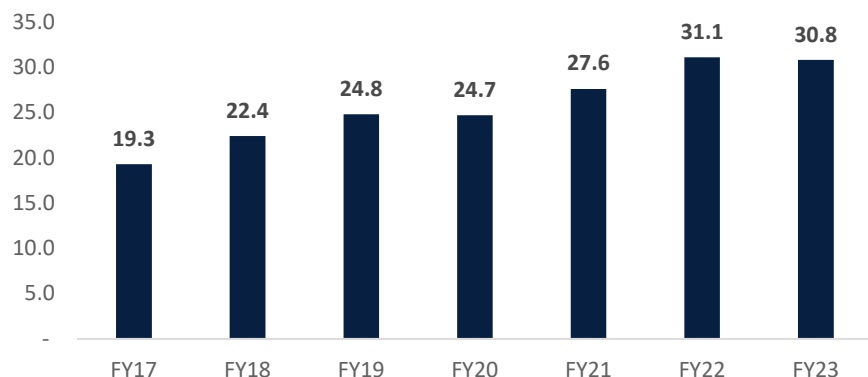
Divisional Observations

The profitability of investment management has substantially declined despite increasing FUM

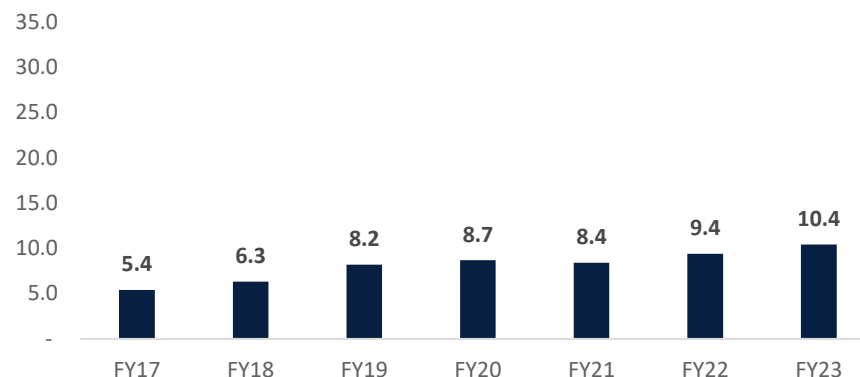


Australia and Asia comprise 64% and 22% of Lendlease’s FUM respectively. The Europe and Americas funds management platforms are subscale

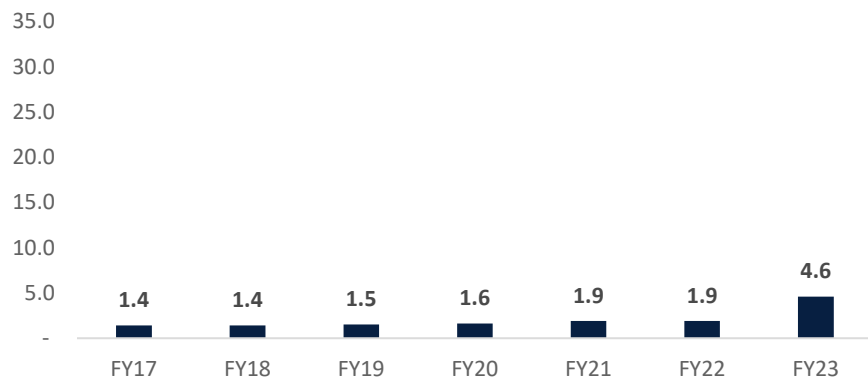
Australia FUM



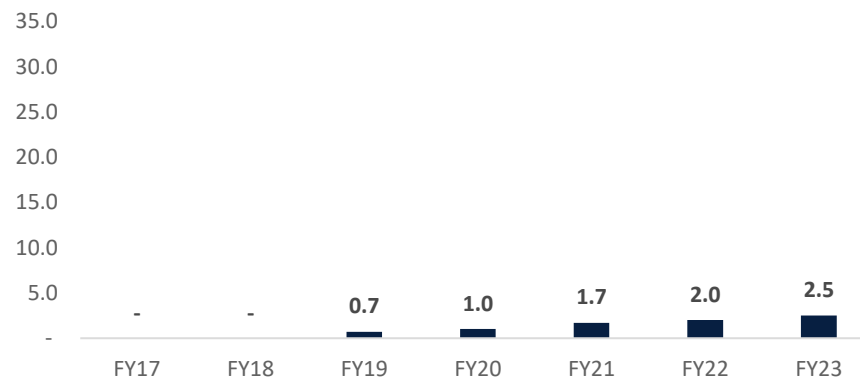
Asia FUM



Europe FUM



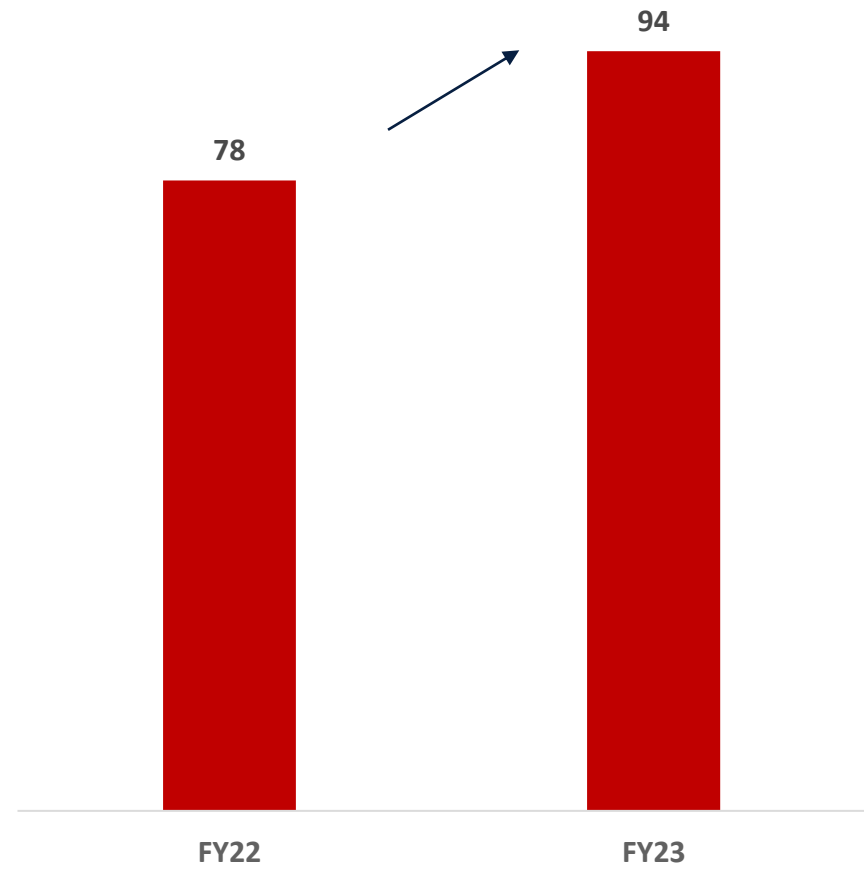
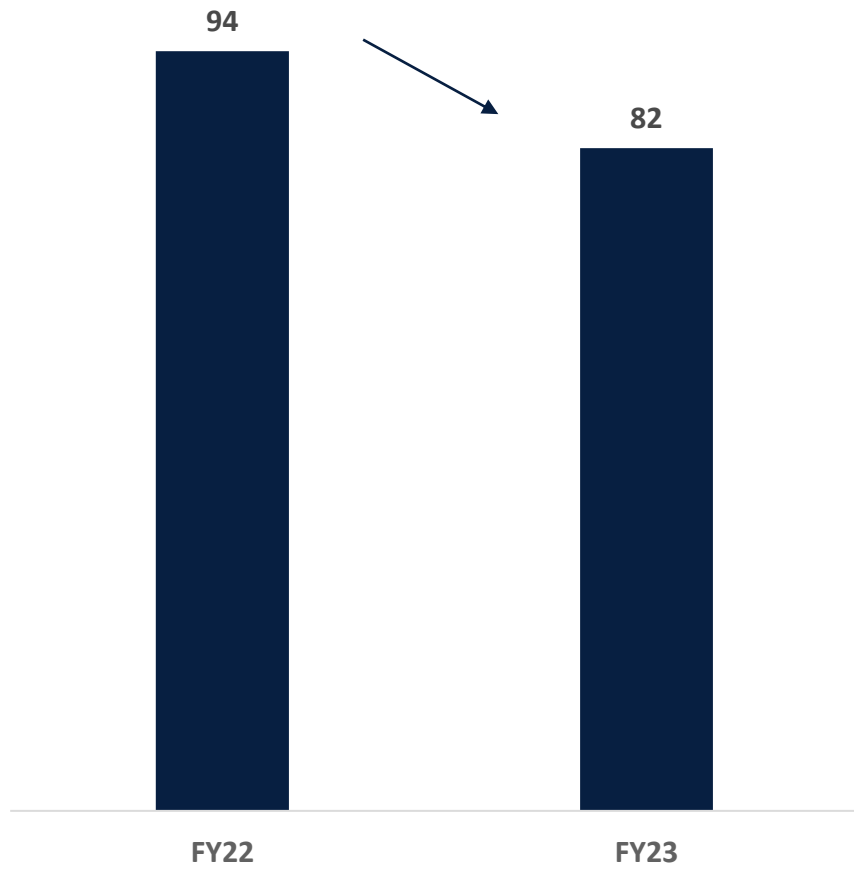
Americas FUM



Funds Management costs up, profits down

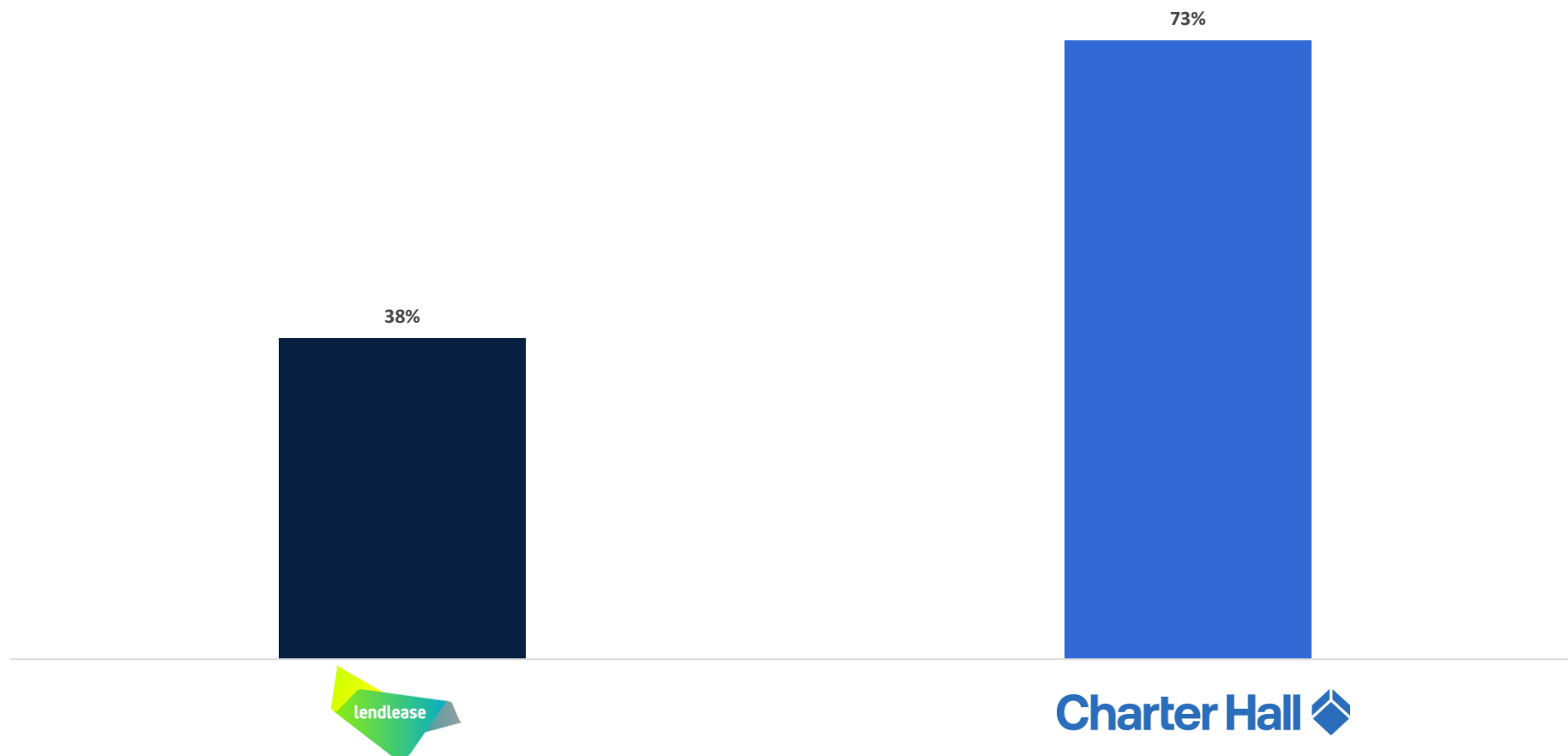
Funds Management EBITDA (A\$m)

Costs (A\$m)



Lendlease earns half the margins relative to Charter Hall in Funds Management

FY23 Funds Management EBITDA margin





Construction

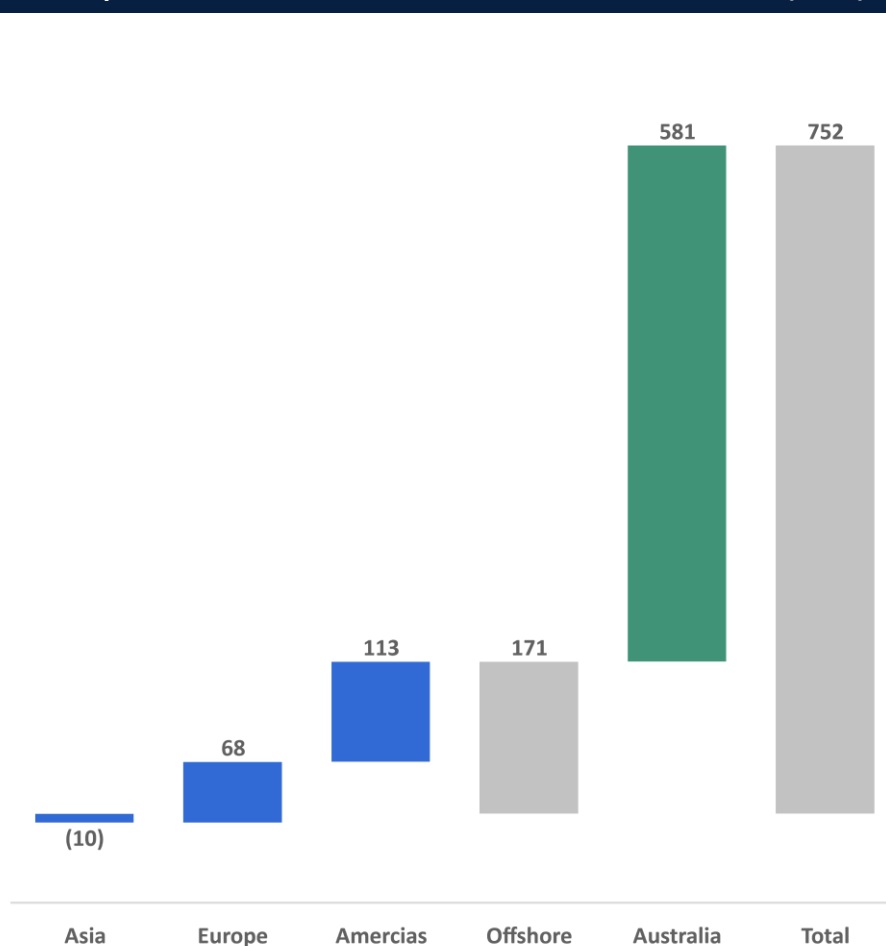
Divisional Observations

No reason to exist in global construction outside Australia

Global Construction Revenue and NPAT, Cumulative FY17-23 (A\$m)

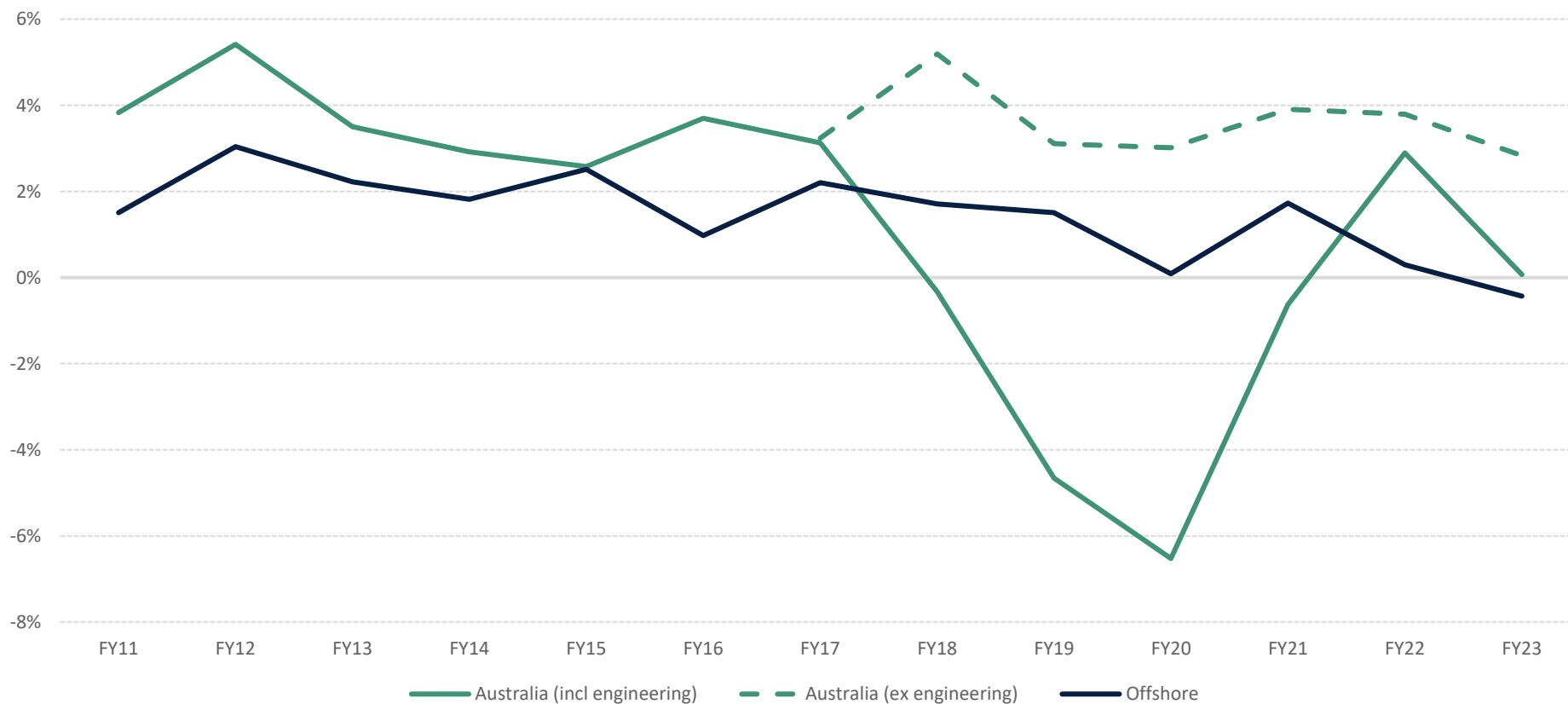


Composition of Construction NPAT, Cumulative FY17-23 (A\$m)



Australia Construction (ex-engineering) is a reasonable business

Construction EBITDA margins (%)



Board and Governance

Independent director and CEO TSR outcomes

Director	Title	Tenure	TSR during tenure (%)	Relative TSR to ASX200 A-REIT (%)	Prior Property Experience?
Michael Ullmer	Independent Non-Exec Chair	Dec-11	30%	(251%)	NO
Tony Lombardo	Global CEO and Managing Director	May-21	(45%)	(75%)	na
Nicola Wakefield Evans	Independent NED	Sep-13	(6%)	(180%)	NO
David Craig	Independent NED	Mar-16	(40%)	(121%)	YES
Philip Coffey	Independent NED	Jan-17	(47%)	(115%)	NO
Elizabeth Proust	Independent NED	Feb-18	(54%)	(117%)	NO
Robert Welanetz	Independent NED	Mar-20	(61%)	(89%)	YES
Nicholas Collishaw	Independent NED	Dec-21	(37%)	(51%)	YES
Margaret Lui	Independent NED	Dec-22	(15%)	(42%)	YES
Barbara Knoflach	Independent NED	Oct-23	(10%)	(44%)	YES

Source: Refinitiv market data as at 4 April 2024

Despite self-assessing in the annual report with a near-perfect skills mix

Skills/ Experience	Michael Ullmer	Nicola Wakefield Evans	David Craig	Phil Coffey	Elizabeth Proust	Robert Welanetz	Anthony Lombardo	Nicholas Collishaw	Margaret Lui	Total
Governance	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Industry experience	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
International Operations	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Health and Safety	✓	✓	✓	✓	✓	✓	✓	✓	-	8
ESG	✓	✓	✓	✓	✓	✓	✓	-	-	7
Strategy	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Risk Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Legal	✓	✓	-	-	✓	-	-	-	-	3
People and Culture	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Executive Leadership	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Financial Acumen	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Technology	-	✓	✓	✓	-	✓	✓	-	-	5

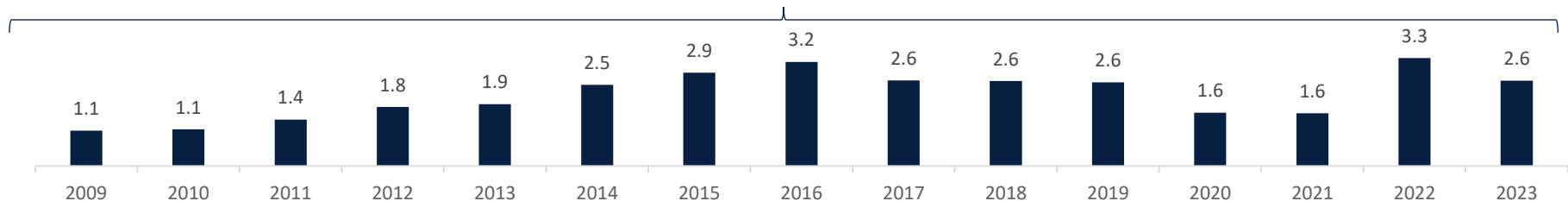
Score¹:
92 / 99

Source: Lendlease 2023 Annual Report. Note: 1. Excluding legal

CEO record

- ~17 years at Lendlease:
 - 2007-2011: Head of Strategy & M&A
 - 2011-2016: Group CFO
 - 2016-2021: CEO Asia
 - 2021-Present: CEO
- Oversaw, as CFO, Lendlease’s aggressive accounting policy of pre-recognising profits from 2011-16, subsequently reversed
- As Group Head of Strategy and M&A, was materially involved in a leadership role in the Valemus acquisition in 2010, which has led to losses of over \$1bn to Lendlease
- Received ~600,000 Lendlease securities from vesting of equity incentives over FY12-21. When he became CEO in September 2021, he owned just 9,764 securities
 - After Tanarra indicated its intention to vote against the remuneration report in 2022, he purchased 60,000 securities on market
- Has benefited from receiving larger Performance Rights as the Lendlease share price has declined:
 - FY21: 265,416 rights granted at a share price of \$12.06
 - FY22: 314,928 rights granted at a share price of \$10.16
 - FY23: 384,744 rights granted at a share price of \$8.32
- Has securities worth less than 0.2x his FY23 cash salary today
- Total remuneration from Lendlease:

c. \$33m total



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