QUALITAS

ASX Announcement

Qualitas Limited (ASX: QAL)

22 February 2024

QUALITAS DELIVERS STRONG INTERIM RESULTS AND IS WELL-POSITIONED FOR FUTURE GROWTH

Qualitas Limited (ASX: QAL) (**Qualitas**, or **Company**), a leading Australian alternative real estate investment manager, is pleased to present its financial results for the six months to 31 December 2023 (**1H24**)[1] and provide the following financial and operational update.

Financial Highlights:

Half-year ended 31 December ($000)	1H24	1H23	Variance (%)
Funds management revenue	25,861	20,665	25%
Principal income	9,741	7,458	31%
Funds management EBITDA[2]	18,427	13,436	37%
Normalised Group EBITDA[2]	19,381	15,979	21%
Normalised Group EBITDA margin[2]	47%	46%	
Normalised Group net profit before tax (NPBT)[2]	18,055	14,649	23%
Statutory Group net profit after tax (NPAT)	12,557	10,692	17%
Statutory Group earnings per share (EPS) (cps)	4.2	3.6	17%
Interim dividend[3] (cps)	2.25	2.00	
Cash	200,511	200,411	
Excluding performance fees[2]			
Funds management EBITDA	16,338	11,937	37%
Funds management EBITDA margin	46%	42%	
Normalised Group EBITDA	17,293	14,480	19%
Normalised Group EBITDA margin	44%	44%	
Normalised Group NPBT	15,966	13,150	21%

Operational Highlights:

- Committed funds under management (**FUM**)[4] of A$8.1 billion, up 41% on 1H23
- $1.75 billion capital deployed, up by 51% on 1H23, excluding $600m 'AURA by Aqualand' investment due to its significant size, which is non-typical, down by 0.5% on 1H23 if it includes 'AURA by Aqualand'
    - Additional $590 million Investment Committee approved[5] and $1.0 billion mandated investments[6] as at 31 January 2024
- Average gross investment size of $77 million, up 8% on 1H23[7]

[1] Comparison to 1H23 refers to six months to 31 December 2022 throughout this announcement.
[2] 1H23 normalised earnings adjusted for abnormal items including unrealised mark to market (MTM) gains ($0.7m) from Qualitas' co-investment in QRI. 1H24 normalised earnings adjusted for unrealised MTM gains ($1.0m) from Qualitas' co-investment in QRI and QRI capital raise costs ($1.1m).
[3] Fully franked.
[4] FUM represents committed capital from investors with signed investor agreements.
[5] Investments approved by Qualitas Investment Committee with financial close subject to satisfaction of condition precedents.
[6] Qualitas entered into exclusivity agreements with borrowers with the financial close subject to due diligence and Investment Committee approval.
[7] Excluding 'AURA by Aqualand' due to its non-typical, significant size, single transaction nature.

Group Managing Director and Co-Founder Andrew Schwartz said:

"Qualitas has once again delivered a strong financial result with improvements in all key metrics compared with the prior corresponding period. Our results saw a notable lift in Normalised EBITDA and significant growth in recurring earnings, demonstrating our resilience in a more challenging macro environment. We benefited from strong tailwinds for alternative financiers, ending the half with substantial dry powder and a strong balance sheet to support future growth.

A net $2.1 billion[8] in new commitments was raised in 1H24, our best six-month fund raising period since inception of the firm in 2008. This came from existing institutional investors re-committing and crossing over into new strategies, along with new investors recognising our proven investment performance and leadership in managing alternative Commercial Real Estate (**CRE**) investments in Australia, particularly in private credit.

The efficient and strategic utilisation of our balance sheet capital was a notable highlight. $380 million[9] was deployed in underwriting positions during the period, up 16% on 1H23 with an annualised weighted average return of 9.75%[10]. Our weighted average co-investment of approximately 2.5%[11], significantly below the estimated 5% to 10%, preserving meaningful increased capacity for co-investments to drive future FUM growth and the flexibility to deploy into underwriting positions. Additionally, with our cash balance of $201 million, we are well-positioned to pursue growth opportunities."

Funds Management Performance

Consistently strong top-line revenue growth in funds management, combined with increasing operating efficiency, led to a 37% increase in funds management EBITDA[2] and a 4% funds management EBITDA[2] margin expansion on 1H23.

All deployment in 1H24 was in private credit, with 85% in residential developments. As a sector agnostic investor, the residential sector currently presents the most attractive risk adjusted investment opportunities due to the entrenched supply shortage and acute need for alternate liquidity. Deployment was skewed to the last quarter of 2023, with the increased revenue impact anticipated in 2H24 as per the affirmed guidance.

Fee Earning FUM[12] increased by 25% on 1H23 and Invested FUM[13] by 17% on 1H23 supporting our growth in core funds management revenue. $890 million of the $5.6 billion Fee Earning FUM[12] as at 31 December 2023 was deployed into construction loans, which are undrawn and will beearning full base management fees once they are drawn.

Outlook

Almost 100% of Qualitas' dry powder is in CRE private credit, a nascent sector in Australia with significant growth potential supported by permanent reforms in the global banking sector[14]. Current dry powder represents c.50% of Invested FUM which is anticipated to underpin future funds management revenue growth.

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[8] Difference between FUM as at 31 December 2023 and 30 June 2023.

[9] Total $380m deployed excludes one transaction with undrawn committed capital. Only line fee is accrued. Weighted average yield excludes transactions with undrawn commitment.

[10] 9.75% is calculated as the average of annualised return for each underwriting position weighted by the average drawn underwriting position during 1H24.

[11] Co-investments in new flagship funds.

[12] Amount in committed FUM earning base management fees. Base management fee structures vary across investment platform including committed FUM, invested FUM, net asset value, gross asset value, acquisition price and other metrics used to calculate base management fees.

[13] Funds currently deployed. Capital drawn for equity funds. Funds drawn on live deals/loans less repayments for credit funds.

[14] Implementation of Basel III.

Mr Schwartz continued:
Given our strong deployment activity and expanding pipeline, we anticipate our recurring base management fees to increase over the second half of FY24 with further margin expansion. Investors across all distribution channels are increasing their portfolio allocations to Australian CRE private credit, recognising the attractiveness of this strategy. We continue to focus on diversifying our investor base, attracting new investors, and deepening our relationships with existing investors. Strategic utilisation of our balance sheet capital to maximise growth remains a key priority for our business."

Given these opportunities, and based on no material adverse change in the current market conditions, we reaffirm our market guidance for this financial year:

- FY24 NPBT[15] is estimated between $37 million and $41 million (an increase of c.19% to c.32% respectively on FY23), and
- FY24 EPS[15] is estimated between 8.75 cents and 9.70 cents[16]

Market briefing
Qualitas' market briefing is at 10:00am (AEDT) today, 22 February 2024 with presenters: Andrew Schwartz (Group Managing Director and Co-Founder), Kathleen Yeung (Global Head of Corporate Development) and Philip Dowman (Chief Financial Officer).

Webcast
Please use the following link to access the presentation:
https://webcast.openbriefing.com/qal-hyr-2024/

Teleconference
Prefer to dial-in? Please pre-register using the link below and to access dial-in details:
https://s1.c-conf.com/diamondpass/10035838-hf87t6.html

A replay of the webcast will be available on the Qualitas website following the conclusion of the briefing.

Authorised for release by the Board of Directors of the Company.

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[15] Excludes any MTM movements for Qualitas' co-investment in QRI, MTM movement in co-investment in funds or investments held on balance sheet where assets have completed construction, and QRI capital raising costs.
[16] Based on the current total number of ordinary shares on issue, that is subject to any future changes.

About Qualitas

Qualitas Limited ACN 655 057 588 (**Qualitas**) is an ASX-listed Australian alternative real estate investment manager with approximately A$8.1 billion[17] of committed funds under management.

Qualitas matches global capital with access to attractive risk adjusted investments in real estate private credit and real estate private equity through a range of investment solutions for institutional, wholesale and retail clients. Qualitas offers flexible capital solutions for its partners, creating long-term value for shareholders, and the communities in which it operates.

For 15 years Qualitas has been investing through market cycles to finance assets, now with a combined value of over A$21 billion[18] across all real estate sectors. Qualitas focuses on real estate private credit, opportunistic real estate private equity, income producing commercial real estate and build-to-rent residential. The broad platform, complementary debt and equity investing skillset, deep industry knowledge, long-term partnerships, and diverse and inclusive team provides a unique offering in the market to accelerate business growth and drive performance for shareholders.

Disclaimer

This announcement contains general information only and does not take into account your investment objectives, financial situation or needs. Qualitas is not licensed to provide financial product advice in relation to Qualitas shares or any other financial products. This announcement does not constitute financial, tax or legal advice, nor is it an offer, invitation or recommendation to apply for or acquire a share in Qualitas or any other financial product. Before making an investment decision, readers should consider whether Qualitas is appropriate given your objectives, financial situation and needs. If you require advice that takes into account your personal circumstances, you should consult a licensed or authorised financial adviser. Past performance is not a reliable indicator of future performance.

Qualitas results are reported under International Financial Reporting Standards (IFRS) which are used to measure group and segment performance. The presentation also includes certain non-IFRS measures. These measures are used internally by management to assess the performance of our business, make decisions on the allocation of resources, and assess operational management. All non-IFRS information unless otherwise stated has not been extracted from Qualitas' financial statements and has not been subject to audit or review. Certain figures may be subject to rounding differences. Refer to Appendix A for the reconciliation of statutory earnings to normalized earnings. All amounts are in Australian dollars unless otherwise stated.

[17] As at 31 December 2023.
[18] As at 30 June 2023.

Appendix A – Reconciliation of statutory financial to normalised financial

($THOUSANDS)	1H24	1H23	% (YOY)
Statutory EBITDA	**19,264**	**16,635**	**16%**
(Gain) / loss on mark to market (MTM) value of QRI investment	(969)	(656)	
QRI capital raising costs	1,086	-	
Normalised EBITDA	**19,381**	**15,979**	**21%**
Statutory net profit before tax (NPBT)	**17,938**	**15,305**	**17%**
(Gain) / loss on mark to market (MTM) value of QRI investment	(969)	(656)	
QRI capital raising costs	1,086	-	
Normalised NPBT	**18,055**	**14,649**	**23%**
Statutory net profit after tax (NPAT)	**12,557**	**10,692**	**17%**
(Gain) / loss on mark to market (MTM) value of QRI investment	(678)	(459)	
QRI capital raising costs	760	-	
Normalised NPAT	**12,639**	**10,233**	**24%**