Item 2. Management's Discussion and Analysis of the Results of Operation and Financial Condition

Review of 9M 2023 operations vs. 9M 2022

Ayala Land, Inc. (ALI) maintained a strong growth trend in the first nine months of 2023, driven by the continuing resilience of the residential market and vibrant consumer activity despite ongoing macroeconomic challenges. The Company posted total revenues of P98.92 billion, 15% higher year-on-year. Meanwhile net income registered at P18.39 billion, up 38% from the same period last year.

Real estate revenues (composed of Property Development, Commercial Leasing, and Services) reached P93.15 billion, a 16% increase from last year fueled by steady residential bookings and vibrant commercial activity.

Capital expenditures from the Company's various residential and commercial projects totaled P57.64 billion.

ALI sustained a net gearing ratio of 0.75:1 with the support of higher operating cash flows as it remained prudent in managing its debt funding requirements.

Business Segments

The details of the performance of each business segment are as follows:

Property Development. This segment includes sales of residential lots and units, office spaces, commercial and industrial lots, and operations of Avaland Berhad (formerly MCT Bhd), Ayala Land's consolidated subsidiary based in Malaysia. The property development segment grew 6% to P54.11 billion, owing to higher residential completion, stable bookings, and office unit sales.

Residential. Revenues from sales of residential lots and units and Avaland Berhad's operations reached P44.92 billion, up 7% year-on-year.

AyalaLand Premier (ALP) recorded revenues of P12.28 billion, down 22% from the previous year, attributed to lower incremental percentage-of-completion (POC) of Andacillo in Nuvali, Laguna and lower bookings and incremental POC in Park Central North and South Towers in Makati CBD due to sold-out inventory.

Alveo posted revenues of P11.98 billion, a 28% improvement, owing to higher bookings and incremental POC from Orean Place Towers 1 and 2 in Vertis North, Quezon City and higher incremental POC in Viento, Cerca, Muntinlupa and Mondia expansion in Nuvali, Laguna.

Avida totaled P11.53 billion in revenues, an 8% increase from its revenues last year, due to higher bookings in Greendale Settings in Alviera, Pampanga; Southdale Settings in Nuvali, Laguna; and Serin East Tower 3 in Tagaytay City, Cavite.

Amaia posted P4.82 billion in revenues, a 16% uplift from last year driven by higher bookings and incremental POC in Series Nuvali Sectors 1 and 2 in Laguna and Skies Avenida Tower 2 in Manila and higher bookings from Series Vermosa Sector 1 in Cavite.

BellaVita recognized revenues of P45 million, a 90% decline from P131 million as a result of lower bookings from projects in Iloilo, Lian, Cabanatuan, Naga, and Tayabas.

Avaland Berhand (formerly MCT Bhd) contributed revenues of P4.26 billion, more than double the P1.73 billion from last year, driven by higher incremental POC of its projects namely Alira, Aetas, and Casa Bayu, among others.

Office for Sale. Revenues from sales of office units registered a 51% growth from last year to P2.69 billion on higher project completions.

Commercial and Industrial Lots. Revenues from commercial and industrial lot sales totaled P6.50 billion, 10% less than the last year due to the product sales mix during the period.

Reservation Sales. Despite the prevailing higher interest-rate environment, residential demand remained resilient. Sales reservations in the first nine months increased by 11% year-on-year to P85.88 billion. The Company recorded third-quarter sales of P27.62 billion, adding to the P58.26 billion sales it generated in the first half. The sales performance for the period translated to average monthly sales of P9.5 billion. 63% of the sales were from vertical projects and 37% from horizontal.

Buyer Profiles: 66% were sales to Local Filipinos, amounting to P56.52 billion, 12% higher than last year. Sales to overseas Filipinos were up 9% to P18.43 billion, while sales to other nationalities grew by 11% to P10.92 billion. They account for 21% and 13% of the total, respectively. On sales to other nationalities, 57% or P6.32 billion were sales to Americans--3% higher year-on-year. Meanwhile, sales to Chinese buyers continue to comprise 1% of total sales.

Project Launches. ALI launched five new projects with a combined value of P4.34 billion were launched to the market in the second quarter, namely, AyalaLand Premier's Ayala Greenfield Estates Parkside Terraces Tranche 2, Andacillo Tranche 5, and Lanewood Hills Phase 3 Batch 3, Avida's first mid-rise condominium offering in Nuvali, Solara Park Storeys, and Amaia's Scapes Cabuyao Sector 4. These developments bring Ayala Land's total launch to 11 projects valued at P36.26 billion in the first nine months of the year. 71% are vertical projects, and 29% are horizontal projects, wherein 64% are located in Metro Manila, and the balance of 36% is located in Southern Luzon.

Commercial Leasing. This segment involves the operation of shopping centers, office buildings, hotels and resorts, standard factory buildings and warehouses, and co-working spaces. Commercial leasing revenues were 32% higher year-on-year to P30.76 billion due to improving occupancy and rents

Shopping Centers. Revenues from shopping centers were 40% better from a year ago to P15.67 billion on account of higher occupancy and rents due to healthy operations. The average occupancy rate for all malls is 84%. The total mall gross leasable area (GLA) is 2.1 million square meters.

Offices. Office revenues grew 7% to P8.76 billion due to stable occupancy and higher rents from our solid BPO and Corporate tenant base. The occupancy rate for all offices is 89%. The total office GLA is 1.4 million square meters.

Hotels and Resorts. Revenues from hotels and resorts jumped significantly by 62% from last year to P6.34 billion due to higher domestic business travel and local tourist activity, which pushed up occupancy and room rates.The occupancy rate for hotels and resorts are 67% and 42%, respectively.This segment has a total of 4,358 rooms.

The hotels and resorts business manages 660 hotel rooms in its international brand segment—312 from Fairmont Hotel and Raffles Residences and 348 from Holiday Inn & Suites, both of which are in the Ayala Center, Makati CBD.

There are 12 Seda Hotels, operating 3,122 rooms—Atria, Iloilo (152 rooms); BGC, Taguig (521); Centrio, Cagayan de Oro (150); Abreeza, Davao (186); Nuvali, Santa Rosa, Laguna (330); Vertis North, Quezon City (438); Capitol Central, Bacolod (154); Lio, Palawan (153); Ayala Center Cebu

(301); Seda Residences Ayala North Exchange (293) Central Bloc (214) and Manila Bay (230); and Circuit Corporate Residences (255).

El Nido Resorts operates 193 rooms from its four island resorts—Pangulasian, Lagen, Miniloc, and Apulit. The Lio Tourism Estate currently has 50 rooms under its Bed and Breakfast (B&B) and Dormitel offerings, while the Sicogon Tourism Estate in Iloilo currently has 76 B&B rooms.

Services. This segment is composed of the Company's construction business through Makati Development Corporation (MDC), property management through Ayala Property Management Corporation (APMC), and other companies engaged in power services such as Direct Power Services, Inc. (DPSI) and Philippine Integrated Energy Solutions, Inc. (PhilEnergy) and airline for the hotels and resorts business, AirSWIFT. Total revenues amounted to P8.27 billion, 46% higher than the previous period.

Construction. MDC posted net construction revenues of P4.33 billion, 60% higher than last year's level given the contribution of its external projects.

Property Management, AirSWIFT, and Others. APMC, AIRSWIFT, and retail electricity supply companies' combined revenues grew by 34% to P3.94 billion due to stable property management fees and higher AirSWIFT patronage.

Equity in Net Earnings of Investees, Interest, Fees, Investment, and Other Income

Equity in net earnings from associates and joint ventures surged by 54%, reaching P1.40 billion, driven by our joint venture with Royal Asia, FBDC companies, and Ortigas Land.

Interest and investment income amounted to P302 million, marking 24% more than last year due to higher yields from short-term investments and cash deposits. Meanwile, Interest income from real estate sales declined 23% to P3.13 billion from P4.06 billion due to lower accretion income.

Other income generated from marketing and management fees from joint ventures amounted to P935 million, 2% lower than last year owing to Circuit Makati's Samsung Performing Arts Theater's fewer event bookings and sponsorships during the period.

Expenses

The Company managed to contain expenses to P72.84 billion, a 10% growth year-on-year. Real estate expenses reached P55.46 billion, up 7%, while general and administrative costs increased by 22% to P6.19 billion. Consequently, the GAE ratio settled at 6.3%, higher than 5.9% last year. EBIT margin stood at 35.4%, higher than the 33.8% recorded in the same quarter last year.

Interest expense, financing, and other charges, which include interest expense related to PFRS 16 (Leases), totaled P11.20 billion, 24% more than last year, to reflect the higher interest rates on our borrowings and average daily loan balance. The average cost of debt stood at 4.9%. Of the total debt, 84% is locked-in with fixed rates; 93% was contracted into long-term tenors.

Capital Expenditures

Total capital expenditures in the first nine months of 2023 amounted to P57.64 billion. 54% was spent on residential projects, 9% on commercial leasing projects, 18% on land acquisition, 17% on estate development, and 2% on other general uses.

Financial Condition

Cash and cash equivalents, including short-term investments and UITF investments classified as FVPL, stood at P12.18 billion, resulting in a current ratio of 1.78:1. Borrowings totaled P248.91 billion, translating to a debt-to-equity ratio of 0.79:1 and a net debt-to-equity ratio of 0.75:1. Return on equity was 9.30% as of September 30, 2023.

The Group has various contingent liabilities arising from the ordinary conduct of business, including a case related to property restriction violation. The probable cost estimate for the resolution of the claim was determined in consultation with an external counsel based on the analysis of the potential results. The opinion of management and its legal counsel is that it will not have a material or adverse effect on the Group's financial position and results of operations in the eventual liability under these lawsuits or claims, if any. Accordingly, no provision for any liability has been made in the consolidated financial statements. Further, the Company has no off-balance sheet transactions, arrangements, or obligations in the first nine months of 2023.

No known trends, events, uncertainties, or seasonalities are expected to affect the Company's continuing operations apart from the impact of the ongoing COVID-19 pandemic. There are no material commitments for capital expenditures.