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Goodman delivers strong operating performance in Q3 FY17 with continued focus on generating sustainable long-term growth

Date: 7 June

Release: IMMEDIATE

Goodman Group (Goodman or Group) today provided an operational update for the quarter ended 31 March 2017, maintaining its strong operating performance as the business continues to benefit from the urbanisation of cities around the world and the concentration of consumers in these locations.

Operational highlights include:

- + Total assets under management (AUM) of \$34.6 billion with valuation growth offset by asset sales (\$2.1 billion for the nine months to 31 March 2017 excluding urban renewal)
- + Strong leasing results with 2.5 million sqm leased year to date, equating to \$296 million of annual rental property income
- + Development work in progress maintained at \$3.5 billion across 75 projects with forecast yield on cost of 7.7% and pre-commitments on completions of 86%
- + Occupancy maintained at 96% with weighted average lease expiry steady at 4.7 years and positive rental reversions of 2.7%
- + Progress on asset sales continues in line with strategy with \$200 million of assets sold in the quarter
- + The urban renewal program is on track with in excess of \$1.0 billion to be settled in FY 2017 and active planning underway for future sites
- + Greater financial and operational flexibility achieved through strategic liability management initiatives, including changes to the Group's gearing policy and exchange offer for US\$1 billion of bonds conducted in May/June 2017
- + Credit rating upgrade from both S&P and Moody's achieved off the back of strategic initiatives and lower gearing targets for the Group
- + Reaffirming forecast FY2017 full year operating earnings per security of 43.1 cents, up 7.5% on FY2016

Goodman Group

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Goodman's Group Chief Executive Officer, Greg Goodman said: "We're continuing to realise the benefits of our strategy which has consistently been to invest and develop in quality locations, close to the consumer. We believe demand for quality industrial properties will be strongest in these locations and scarcity of land will see higher values, supporting sustainable long-term growth."

"We have continued to show discipline in our deployment of capital, focusing on the strategic markets which will be long-term beneficiaries of urbanisation and rising consumerism. Our asset rotation program is continuing in line with this strategy, with \$2.1 billion of asset sales completed so far this year to fund the development pipeline in key locations."

Own

The underlying property fundamentals in Goodman's global portfolio remain sound. The Group and Partnerships have leased 2.5 million sqm in the nine months to March, which equates to \$296 million of annual net property income. Positive rental reversions remained steady at 2.7% and occupancy of Goodman's properties was maintained at 96%. Importantly, retention rates remained high at 81%, demonstrating the quality of the locations.

Goodman's strategy to selectively rotate assets to fund the development pipeline has seen over \$6 billion of assets sales over the last three years, concentrating the portfolio in key gateway cities. During the quarter, the Group sold \$200 million of assets and while asset sales will continue, the pace of sales is expected to moderate over time.

Develop

Structural and cyclical themes continue to provide positive tailwinds for the Group with developments positioned to take advantage of the growth of ecommerce, the change in consumer spending and the flow-on effects these have on well-located, high-quality industrial properties.

The Group currently sees development as the best means of accessing high quality product in almost all markets at this point in the property cycle and currently has \$3.5 billion of development work in progress. In line with the Group's risk management approach, 86% of completed developments year to date had pre-commitments from customers, while 80% were developed on behalf of third parties or Partnerships.

Manage

Goodman's external assets under management remained steady at \$30 billion with the Group continuing to balance the strategic asset rotation program with its strong development workbook.

Asset sales of \$2.1 billion completed in the last nine months have funded the development pipeline and enhanced the quality of the portfolio.

Increased development undertaken with our Partners, portfolio repositioning and robust markets, have seen continued strong returns in the Partnerships. As a result, performance fees are expected to be an ongoing feature of results in future periods.

Capital management

The Group continues to actively reduce gearing in the business, given its desire to run low financial leverage at this point in the property cycle. Goodman maintains its capital management approach focused on long-term operational and balance sheet flexibility, providing the ability to absorb changes in market volatility. In line with this, the Group has undertaken a number of capital management initiatives.

The previously announced exchange offer for US\$1 billion of bonds closed with strong support from bond holders. The key changes to the US 144A bond and bank covenants included tightening the leverage covenants by 5% and removing the unencumbered real property assets test.

As part of the transaction, Goodman reduced its gearing target to 0-25% from 25-35%. The reduction in the gearing target formalises the Group's capital management strategy which has been to actively reduce leverage in recent years.

Gearing will be determined with reference to the mix of earnings and ratios consistent with the credit rating. This is in line with current practice.

These initiatives have resulted in a credit rating upgrade from both S&P (to BBB+) and Moody's (to Baa1).

Outlook

Goodman continues to see strong ongoing demand for prime industrial space across the global portfolio in key locations. The business is positioned to take advantage of the structural and cyclical influences in the market, particularly in locations positively impacted by the expected increase in urbanisation and rising consumerism. The Group remains focused on strengthening and refining its position in these locations, predominantly through development at this point in the cycle.

The Group reaffirms its forecast FY2017 full year operating earnings per security of 43.1 cents, up 7.5% on FY2016.

- Ends -

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About Goodman

Goodman Group is an integrated property group with operations throughout Australia, New Zealand, Asia, Europe, the United Kingdom, North America and Brazil. Goodman Group, comprised of the stapled entities Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited, is the largest industrial property group listed on the Australian Securities Exchange and one of the largest listed specialist investment managers of industrial property and business space globally.

Goodman's global property expertise, integrated own+develop+manage customer service offering and significant investment management platform ensures it creates innovative property solutions that meet the individual requirements of its customers, while seeking to deliver sustainable long-term returns for its Partners.

For more information: www.goodman.com

