ASX Announcement

15 August 2017

Propertylink delivers strong FY2017 results and provides guidance on earnings growth into FY2018

Propertylink Group (ASX:PLG) today announced strong financial and operational results for the 2017 financial year, delivering earnings above the Prospectus and Product Disclosure Statement (PDS) forecast and ahead of distributable earnings guidance.

Propertylink's Managing Director and CEO, Stuart Dawes said "I am delighted to present this result for the 2017 financial year, which reflects our active approach in managing both the wholly owned industrial property portfolio and investment management business.

"Furthermore, through prudent capital management over the course of the year, we are well positioned for growth, with a robust balance sheet position, low gearing and strong revenue security."

HIGHLIGHTS

Financial performance

- Distributable earnings of $45.3 million, exceeding the PDS forecast of $40.2m by 12.6%
- Distribution of 6.32 cents per security reflecting a distribution yield of 8.2%(1) and a payout ratio of 84%
- Growth in net tangible assets (NTA) of 16% to 87.3 cents per security since the IPO
- Balance sheet gearing of 30.5%, down from 35% at IPO

Wholly owned industrial portfolio:

- Weighted average lease expiry (WALE) of 4.4 years across the wholly owned industrial portfolio, up from 3.6 years at IPO
- Increased occupancy to 97% up from 95% at IPO
- FY2018 lease expiry reduced to 10%(2)
- Tenant retention of 78% across 21 lease renewals and 37 new leases

Investment management:

- Average total return of 21%(3) delivered across external funds since inception
- Average total return of 29% achieved on external fund assets divested during FY2017
- Property acquisitions of $500 million during the 12 months to 30 June 2017
- An increase in co-investments to $63 million, delivering $4.7 million to distributable earnings, and $3.8 million of fair value adjustments through revaluations

Propertylink (Holdings) Limited (ACN 092 684 798), Propertylink Investment Management Limited (ACN 136 865 417) (AFSL 338189) as responsible entity of Propertylink Trust (ARSN 613 032 750) and Propertylink Australian Industrial Partnership (ARSN 613 032 812)
Level 29, 20 Bond Street, Sydney NSW 2000 T: +612 9186 4700 www.propertylink.com.au

Key achievements post 30 June 2017:

- Further leasing success in Perth, increasing occupancy of the wholly owned industrial portfolio to 98%
- Contracts exchanged for the sale of 8 Sylvania Way, Lisarow for $9.6 million representing a 9.4% premium to book value, with settlement expected in November 2017
- Completion of the $23 million sale of 150-156 McCredie Road, Smithfield
- Completion of the $275 million sale of 320 Pitt Street, Sydney delivering a total return of 40% to POP II fund investors
- Completion of the sale of 90 Mills Road, Braeside for $51 million delivering a total return to external fund investors of 25%
- Recognition of approximately $18.5 million ($13 million after tax) of performance fees as a result of the sale of the above two assets, further enhancing Propertylink's track record and increasing the average return on divested external fund assets to 31%
- An additional $20 million co-investment in PAIP II bringing Propertylink's PAIP II co-investment to 17.5%, and increasing the average co-investment across external funds to 16.1%

FINANCIAL RESULTS

FY2017 Earnings

Earnings metrics	30 June 2017	PDS Statutory Forecast
Total comprehensive income[4]	$87.2m	$41.5m
Distributable earnings / distributable earnings per security[4]	$45.3m / 7.51 cps	$40.2m / 6.67 cps
Net revaluation gains / revaluation gain per security	$37.3m / 6.19 cps	Nil
Distribution per security / payout ratio	6.32 cps / 84%	6.32 cps / 95%
Operating revenue		
Net property income[4]	$43.5m	$43.7m
Co-investment income	$4.7m	$3.5m
Investment management revenue	$12.0m	$12.8m
Gain on disposal of investment property	$5.7m	Nil

Total comprehensive income was $87.2 million, with distributable earnings of $45.3 million, ahead of the forecast of $40.2 million set in the prospectus in August 2016.

A total distribution of $38.1 million delivers 6.32 cents per security for FY2017, consistent with guidance. The distribution reflects a payout ratio of 84%, within the target distribution range of 80-100%. The distribution for the six months ending 30 June 2017 of 3.62 cents per security will be paid to securityholders on 4 September 2017.

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Net property income of $43.5 million was delivered across the wholly owned industrial portfolio, consistent with the PDS forecast. This was achieved within a 10.5 month period from 15 August 2016 compared to the 11 months forecast in the PDS, as result of strong leasing activity undertaken across the portfolio.

Propertylink's co-investments in external funds delivered $4.7 million to distributable earnings, further enhanced by $3.8 million in revaluation adjustments. This was well ahead of the PDS forecast due to growth in co-investments during the year and higher than forecast returns across external funds.

Investment management revenue of $12.0 million was slightly behind the PDS forecast as a result of lower than forecast growth in external funds under management during the year.

The sale of non-core assets from the wholly owned industrial portfolio provided $49 million in capital for redeployment to other investment opportunities, with a solid premium to book value of $5.7 million recognised in FY2017.

Financial Position at 30 June 2017

Gearing at 30 June 2017 was 30.5%, down from 35% at the IPO and at the lower end of the target range of 30-40%. Subsequent to 30 June 2017, cash received from property sales and performance fees, partially offset by an additional co-investment of $20 million in PAIP II, further reduces gearing. Following payment of the final FY2017 distribution of $21.8 million on 4 September 2017, gearing remains at around 30%.

Look through gearing at 30 June 2017 was 35.2%.

At 30 June 2017, drawn debt stood at $257 million with a weighted average debt expiry of 3.1 years and hedging in place over 69% of drawn debt. Allowing for the above post balance date transactions and the September distribution, debt facility capacity increases from $38 million at 30 June 2017 to around $65 million.

Net tangible assets have increased by 15.6% since the IPO, to 87.3 cents per security at 30 June 2017. This growth was driven by strong returns delivered across the business and solid uplifts in valuations across the wholly owned property portfolio and assets held in external funds, through co-investments.

Propertylink's Chief Financial Officer, Tony Groth said "The sale of non-core assets throughout the year combined with solid cash generation across the business has provided us with a strong balance sheet, with significant capacity to pursue new investment opportunities to drive growth.

"Propertylink remains within all debt covenant limits and target ranges, and our investment capacity has been further strengthened by the $23 million settlement of our Smithfield property and the receipt of performance fees of approximately $18.5 million."

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WHOLLY OWNED INDUSTRIAL PORTFOLIO

Key metrics across the portfolio exceeded the targets established in the PDS, reflecting Propertylink's ability to maximise income across the portfolio and deliver tangible value.

	30 Jun 2017	31 Dec 2016	PDS
Industrial portfolio value	$695m	$698m	$685m
Number of properties	30	32	33
Gross lettable area	481,164 sqm	503,698 sqm	515,403 sqm
Occupancy	97.0%	95.1%	95.0%
Like for like rental growth	2.57%(5)	-	-
Tenant incentives	12.99%	11.04%	15.49%
WALE	4.4 years	4.4 years	3.6 years
WACR	7.22%	7.40%	7.65%

Propertylink's Chief Investment Officer, Peter McDonald said "Strong value was delivered across our wholly owned industrial portfolio during the year, through our active approach to asset management, delivered by our in-house team. The performance of our portfolio is evidence of this active approach combined with our exposure to the key strategic market themes of urbanisation, last mile logistics, aging population and technology."

Revaluations

During FY2017, assets representing 55.2% of the industrial portfolio were independently valued in accordance with Propertylink's valuation policy. Combined with internal valuations across the remainder of the portfolio, an uplift on carrying value of $37.3 million was recognised during the year, driven by a combination of positive market fundamentals and continued leasing success.

The weighted average capitalisation rate (WACR) tightened by 43 basis points over the year, to 7.22%.

Leasing Activity

During the year, leasing of 179,101 sqm or 37% of the total portfolio was completed across 58 transactions. Propertylink's pro-active approach and active asset management style delivered strong leasing outcomes including:

- Increased portfolio WALE to 4.4 years, with a WALE of 5.5 years across leasing transactions completed during the year
- 21 lease renewals at a tenant retention rate of 78% and average incentives of 6.8%
- 37 new leases at an average incentive of 14.6%, with average downtime of five months
- Increased portfolio occupancy to 97%, which increased to 98% in August 2017 as a results on ongoing leasing success in Perth

- FY2018 lease expiry reduced to 10%(2)

Major lease transactions over the year included:

- A new 15 year lease to the Walkinshaw Group at 71-93 Whiteside Road and 74-84 Main Road, Clayton, removing a significant vacancy risk as it comprises 28,286 sqm or 5.9% of the portfolio by area
- New lease deals for Propertylink's 18,060 sqm development project at 122 Newton Road, Wetherill Park to Sika Australia and Northline, resulting in a WALE on the asset of 6.5 years
- Thirteen separate new and renewal lease transactions at 7-15 Gundah Road, Mount Kuring-Gai, totaling 26,088 sqm, and improving the asset WALE from 1.8 years to 3.7 years
- A new four year 11 month lease to United Steel at 571 Derrimut Road, Derrimut
- A new six year lease for 9,954 sqm at 8 Sylvania Way, Lisarow.

122 Newton Road Development

The redevelopment of 122 Newton Road, Wetherill Park was completed in June 2017, delivering an 8,684 sqm modern logistics facility on surplus land and the refurbishment of the existing 9,376 sqm warehouse. Both buildings were fully leased prior to practical completion with an average WALE of 6.5 years, achieving a yield on cost of 7.12%.

"Utilising surplus land at the rear of the site, we have created prime improvements to our asset, delivering enhanced rental income and increased capital value. The project showcases the in-house project management and development capabilities of our team and has been a great success for Propertylink" said Peter McDonald.

Property Sales

	Sale Price	Premium to book value
36-52 National Boulevard, Campbellfield VIC	$9.6m	3.1%
Unit 2/22 Beaumont Road, Mt Kuring-Gai NSW	$2.0m	-
9-13 Titanium Court, Crestmead QLD	$7.5m	4.9%
10-12 Pike Street, Rydalmere NSW	$27.5m	25.6%
Unit 3/22 Beaumont Road, Mt Kuring-Gai NSW	$2.0m	2.6%
150-156 McCredie Road, Smithfield NSW (settled Jul-17)	$23.0m	0.9%(6)
8 Sylvania Way, Lisarow NSW (exchanged Jul-17)	$9.6m	9.4%

Capitalising on opportunities to recycle capital during FY2017, Propertylink divested a number of non-core assets from the wholly owned industrial portfolio. The sale of these five assets realised $49 million in gross proceeds for reinvestment in new opportunities and achieved an average premium to book value of 14.9%.

A $23 million contract for the sale of 150-156 McCredie Road, Smithfield was agreed during FY2017, with the sale completed in July 2017. Post 30 June 2017, Propertylink exchanged a contract to sell 8 Sylvania Way, Lisarow for $9.6m, representing a 9.4% premium to book value, with settlement expected in November 2017.

INVESTMENT MANAGEMENT

At 30 June 2017 Propertylink managed approximately $1.2 billion in industrial and office assets across nine external funds on behalf of global institutional investors. Strong results have been achieved across the investment management business, delivering an average total return of 21%(3) to investors since establishment of the external funds.

Acquisitions

During FY2017, $500 million in assets were acquired across a number of funds including:

- The establishment of the diversified Propertylink Enhanced Partnership (PEP) with $287 million in assets acquired
- Acquisition of $213 million of core-plus industrial assets to significantly grow the Propertylink Australian Industrial Portfolio (PAIP II)

Propertylink has continued to pursue opportunities to further grow PAIP II and in August 2017 exchanged contracts to purchase a $21 million industrial facility in Frenchs Forest. Settlement is expected to occur in September 2017.

Divestments

Recognising the strength of the industrial and office markets in Sydney and Melbourne, a number of divestments occurred during the year, delivering an average total return of 29% to investors, including:

- The sale of two cold store logistics facilities for $73.1m on behalf of the Propertylink Australian Logistics Trust (PALT)
- The $13.5 million divestment of a single office asset on behalf of the PEP fund

At 30 June 2017 Propertylink had exchanged contracts for the sale of a further two assets, being:

- 320 Pitt Street, Sydney for $275 million, delivering a total return of 40% to investors; and
- 90 Mills Road Braeside for $51 million, delivering a total return of 25%.

Both transactions were completed in July 2017 generating approximately $18.5 million ($13 million after tax) in performance fees for Propertylink, recognised in FY2018. The completion of these sales brings Propertylink's average total return on divested assets to 31%, delivering outstanding outcomes for investors and further enhancing Propertylink's track record.

As previously announced, Propertylink's management of two industrial properties on behalf of M&G Investments ceased in July 2017. These assets contributed $85 million to assets under management at 30 June 2017.

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Co-investments

Aligning interests with investors, Propertylink continued to co-invest in external funds throughout the year, increasing co-investments by $39 million to $63 million at 30 June 2017. The increase largely reflects Propertylink's 25% co-investment in the newly established PEP fund and brings the average co-investment across external funds to 11.1% at the end of FY2017.

In July 2017, Propertylink increased the co-investment in PAIP II by a further $20 million bringing Propertylink's PAIP II co-investment to 17.5% and the average co-investment across all external funds to 16.1%.

Stuart Dawes said "There continues to be a weight of institutional capital seeking exposure to the Australian industrial and office property markets due to attractive yields and strong total returns, which will support the ongoing growth of our investment management business. With our continued performance and track record in delivering outsized returns, we remain a strong partner for our existing investors, whilst also presenting an attractive proposition for new investors. As such, we expect to expand our investor base over the course of 2018.

"Our ability to deliver value through the cycle is based on our top down and bottom up approach to the acquisition and management of our assets. We continue to be highly active in the market, leveraging off our strong and well-established relationships and our ability to add value through our active approach to asset management. This enables us to focus on sectors of the market where asset pricing is not extended, providing a point of differentiation in the current environment."

OUTLOOK

"Solid financial and operational performance in FY2017, provides a strong platform for growth in FY2018" said Stuart Dawes.

"We maintain a significant exposure to the strong Sydney and Melbourne markets, with a focus on opportunities to capitalise on emerging market trends surrounding urbanisation and e-commerce across both our wholly owned industrial portfolio and the investment management business.

"We will continue to pursue property acquisitions using our top down and bottom up approach with a focus on the ability to execute, using our active asset management skill-set to realise value. Front of mind in everything we do, is our ongoing commitment to achieving outstanding returns for our investors which, given the weight of capital seeking to invest in Australia, requires a disciplined approach to the acquisition of assets, critical in the current market environment."

Propertylink provides the following guidance in relation to FY2018:

- Distributable Earnings per Security of 8.5 to 8.7 cents – up 13-16%(7) on prior year
- Distribution per Security of 7.1 to 7.3 cents – up 12-16%(8) on prior year

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Results Presentation

Propertylink presents its FY2017 results by webcast and teleconference at 9:00am on Tuesday 15 August 2017. An archive of the event will be available later in the day on the Propertylink website http://propertylink.com.au/investor-centre/.

Further Enquiries

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About Propertylink

Propertylink is an A-REIT, listed on the Australian Stock Exchange under the code “PLG”. Propertylink is an internally managed real estate group that owns and manages a diversified portfolio of logistics, business park and office properties and is a leading investment and asset management business with over A$1.6 billion of assets under management. Propertylink’s integrated, in-house approach to active asset management is aimed at maximising the performance and value of assets under management for our global investors from North America, Europe, the Middle East, Asia and Australia.

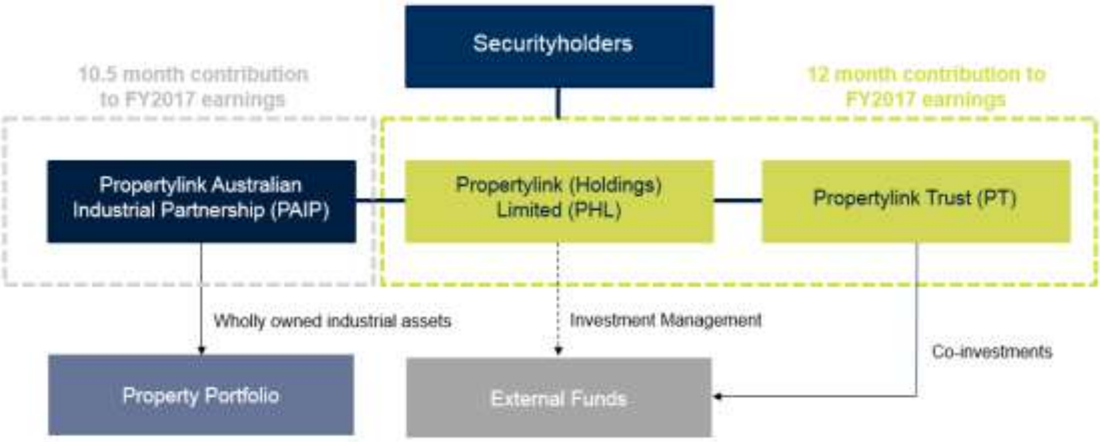
Footnotes

(1) Distribution yield calculated using PLG share price at 30 June 2017 of $0.845 and annualised based on 11 months of earnings in accordance with PDS forecast.

(2) FY2018 lease expiry after excluding Smithfield property settled in July 2017.

(3) Weighted average total return across external funds excludes PAIP II and 50 Ann Street, Brisbane (PEP) in acquisition phase in FY2017.

(4) Propertylink Group comprises Propertylink Australian Industrial Partnership (PAIP), Propertylink Holdings Limited (PHL) and Propertylink Trust (PT). The financial results for FY2017 include a 12-month contribution from PHL and PT. PAIP contributed 10.5 months to FY2017 earnings, for the period from 15 August 2016 following stapling the securities of PAIL to PHL and PT.



(5) Like for like rental growth is from the second half of FY2016 to the second half of FY2017

(6) The Smithfield asset was revalued at 30 June 2017, however at the time of exchange of contracts for sale, the sale price of $23 million represented a 15% premium to book value

(7) Distributable earnings per security increases by 4-6% from FY2017 to FY2018 when annualised on a pro-forma basis

(8) Distribution per security increases by 3-6% from FY2017 to FY2018 when annualised on a pro-forma basis

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