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Goodman achieves strong performance for FY17 with operating profit of \$776.0 million up 8.6% on FY16

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Release	IMMEDIATE

Goodman Group (Goodman or Group) today announced its results for the full year ended 30 June 2017, delivering an operating profit of \$776.0 million, up 8.6% on FY16 and operating earnings per share (EPS) of 43.1 cents, up 7.5% on FY16.

The results demonstrate the strength of the underlying operations of the Group. It is supported by the development led strategy that leverages growing online consumerism in key global gateway cities through its \$3.5 billion workbook.

The Group is forecast to generate \$828 million of operating profit in FY18, which will result in operating EPS growth of 6% on FY17.

Commenting on the result, Goodman's Group Chief Executive Officer, Greg Goodman said: "Our FY17 operating profit of \$776.0 million is the result of strong operational performance and the deliberate repositioning of our business over the last three years.

This is evident in the \$1.6 billion of revaluation gains and 14.4% total return for the Partnerships for FY17. Since 2014, our assets under management have grown to \$35 billion despite \$8 billion in asset sales, and over the last five years we have consistently delivered operating profit and EPS growth of greater than 7%.

We've taken advantage of the property cycle to make \$3.5 billion of asset sales across the platform this financial year, redeployed this capital into strategic developments and reduced Group leverage to 5.9%. This has provided us with greater financial flexibility and enabled us to improve the quality of our global portfolio by focussing on strategic locations in gateway cities, placing our customers close to their customers.

Having positioned our business to take advantage of structural changes, we're now looking to the future. Rapidly advancing technology and increased consumer expectations around price, product availability and delivery, while disruptive for some businesses, are providing us with opportunities. Although the evolution of e-commerce and supply chain transformation are still in their early stages, we are seeing increased demand for our expertise in providing high quality logistics facilities in prime locations. This is a trend we expect to accelerate over the next five to ten years."

Goodman Group

Goodman Limited | ABN 69 000 123 071
Goodman Funds Management Limited | ABN 48 067 796 641 | AFSL Number 223621
as responsible entity of Goodman Industrial Trust | ARSN 091213 839
Level 17, 60 Castlereagh Street, Sydney NSW 2000 | GPO Box 4703, Sydney NSW 2001 Australia
Tel +61 2 9230 7400 | Fax +61 2 9230 7444

Goodman Logistics (HK) Limited | Company No. 1700359 | ARBN 155 911 149 | a Hong Kong company with limited liability
Suite 901, Three Pacific Place, 1 Queen's Road East, Hong Kong | Tel +852 2249 3100 | Fax +852 2525 2070

info-au@goodman.com | www.goodman.com

Key financial and operational highlights for the period are:

Financial highlights

- + **Operating profit of \$776.0 million¹, up 8.6% on FY16**
- + **Operating earnings per security (EPS)² of 43.1 cents², up 7.5% on FY16**
- + **Total distribution of 25.9 cents per stapled security, up 8% on FY16**
- + **Net tangible assets per security up 3% to \$4.21**
- + **Statutory profit of \$778.1 million²**
- + **Improvement of balance sheet with gearing reduced to 5.9% (look through gearing at 18.0%), interest coverage ratio of 9.5 times and \$3.2 billion of liquidity**
- + **Forecast FY18 operating earnings of \$828 million, or EPS of 45.7 cents (up 6% on FY17)**
- + **Forecast FY18 distribution of 27.5 cents per security (up 6% on FY17) with payout ratio unchanged**

Operational highlights

- + **Total assets under management (AUM) of \$34.6 billion with external AUM of \$30.5 billion, up 4% on FY16 despite asset sales**
- + **Valuation uplift of \$1.6 billion across the Group and Partnerships**
- + **Strong property fundamentals across the core investment portfolio, with occupancy increased to 97%, retention rate steady at 81% and weighted average lease expiry of 4.7 years**
- + **Development work in progress of \$3.5 billion across 77 projects in 12 countries with a forecast yield on cost of 7.8%**
- + **Continued focus on asset rotation to fund developments and improve the quality of the portfolio with \$3.5 billion of asset sales**
- + **\$1.2 billion of urban renewal sales settled during the year ahead of expectations, with \$2.1 billion sales completed under the program**

Operations – operating profit growth whilst reducing gearing

Goodman's integrated business model balances income, risk and capital requirements across the platform to deliver strong consistent returns for the long term. The FY17 results delivered a strong operating performance across the three divisions, generating EPS growth of 7.5% while also deleveraging to gearing of 5.9%.

The Group generated a statutory accounting profit of \$778.1 million for the full year. This consists mainly of the following:

- + \$776 million of operating profit;
- + \$398 million of valuation gains representing the Group's share of the \$1.6 billion of valuation gains across the entire platform;
- + Other usual non-cash adjustments for items such as unrealised derivative mark to market and unrealised foreign exchange gains and non-cash remuneration under the Group's long term incentive program (LTIP), which collectively amounted to a loss of \$190 million this year; and
- + \$205 million of unrealised valuation loss and costs on our US Bonds associated with the modifications made to their covenants in June 2017. This loss is recognised in accordance

with accounting requirements and is due to the reduction in interest rates and the improved strength of Goodman's Credit Rating since the Bonds were originally issued.

The US144A offer was one of several capital management initiatives Goodman undertook in the financial year. Collectively these initiatives lowered leverage and boosted liquidity to \$3.2 billion at year end. Goodman's capital management strategy provides flexibility and allows the Group to take advantage of long term growth opportunities as they arise.

Property Investment – repositioning to a higher quality portfolio reflected in key metrics

Goodman's asset sale program has seen an improvement in the overall quality of the portfolio and in key metrics. With 3.1 million sqm leased during the year, occupancy has increased to 97% across Goodman's 387 properties globally. The retention rate is 81% and the weighted average lease expiry is steady at 4.7 years, while like for like rental growth is at 3% and positive lease reversions are at 2.5% on new leasing deals.

Property investment income of \$396.7 million for the Group was lower in FY17 due to the impact of asset sales. However, the higher quality portfolio is expected to provide better growth and real estate returns over the longer term.

The urban renewal program in Australia progressed with \$1.2 billion of sites settled in FY17, and a further \$0.3 billion conditionally contracted and due to settle in FY18. The Group has sites under its control across the Australian portfolio, capable of delivering a pipeline of 35,000 apartments which will continue to be a potentially significant source of capital for future activities.

Development – strong development work book increasingly moving to Partnerships

Goodman's development work in progress (WIP) increased to \$3.5 billion, across 77 projects in 12 countries with a forecast yield on cost of 7.8%. The majority of development work has moved into the Partnerships, and now accounts for 75% of the WIP. This has the benefit of both reducing the volatility in development earnings for the Group and providing the Partnerships with the opportunity for increased returns, supporting potential performance fees for the Group.

Customer enquiry remains strong and in FY17 Goodman and its Partnerships saw 65% of the \$2.8 billion of developments commence pre-committed. Upon completion, 88% of developments were pre-committed, reinforcing the strategy to limit speculative development to supply constrained markets.

The Group remains well placed to deliver high quality product in key locations, with a potential development pipeline of \$10 billion under its control.

Management – positive returns resulting in ongoing performance fees

Total assets under management increased 4% this year to \$30.5 billion while the average return across the Partnerships was 14.4%. These positive results are a product of strong valuations (\$1.6 billion valuation uplift across the Group and Partnerships), as well as the develop-to-hold strategy increasingly employed by the Partnerships.

Management earnings were up 3% supported by positive valuations and development programs and despite the \$2.5 billion in asset sales out of the Partnerships. Strong historic returns within the Partnerships have led to performance fees for the Group in FY17 and are forecast to continue beyond FY18. The development and management businesses continued to be strong contributors to Goodman's outperformance, with a combined operating EBIT margin of 67%.

Capital management – operational flexibility and funding future obligations

Goodman's capital management activities are focussed on providing operational flexibility, the ability to fund financial obligations and support long term growth. The Group undertook several initiatives this year to capitalise on positive market conditions and the strength of the underlying business.

- + The Group reduced its gearing target under its Financial Risk Management Policy from 25-35% to 0-25% in line with its current practice
- + It amended bank and bond covenants; and
- + Completed an exchange offer for US\$1 billion in US144A bonds.

The Group received credit rating upgrades from both S&P and Moody's to BBB+ and Baa1 respectively, with a stable outlook, as a result of ongoing improvements and business strategy.

In addition, the Group has also announced the repurchase of all \$327 million Goodman PLUS hybrid securities on 2 October 2017 and notes that it has GBP250 million 9.75% EMTN that will mature in July 2018. These capital management opportunities and further deleveraging will see continued interest savings in FY18 and beyond.

Leverage across the Partnerships also declined, reducing look through gearing to 18%. The Partnerships now have \$11 billion in undrawn debt, equity and cash, providing capacity to participate in future growth opportunities.

Outlook – deliberate repositioning strategy expected to sustain long term growth

Goodman is well positioned to capitalise on current market conditions and future opportunities.

The Group's continued strategy to improve asset quality through asset rotation and focus on key gateway markets has proven to be successful over the last few years and should continue to provide strong returns.

Commenting on the outlook for the Group, Greg Goodman said, "we continue to see the long term benefits of our strategy to provide our customers with smart, modern, well-located logistics facilities, close to consumers.

The strength of our development and leasing activities are being driven by:

- + Growth in consumerism globally
- + Evolution of ecommerce and increased supply chain sophistication
- + Rapid technological and behavioural change for both business and consumers as the use of automation and artificial intelligence increases
- + Scarcity of land in our gateway city locations

The Group's broad diversity of earnings across our business divisions combined with our scale and geographic diversification should provide stable income growth, while AUM and associated benefits are set to increase as the development workbook progresses to completion.

Goodman is well positioned for the future and forecasts a full year operating profit for FY18 of \$828 million, or 45.7 cents per security, up 6% on FY17."

For further information, please contact;

Media

Michelle Chaperon

Head of Group Corporate Communications

Tel: + 612 9230 7400

Investors

James Inwood

Head of Group Stakeholder Relations

Tel: + 612 9230 7400

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 long-term returns for investors.

¹ Operating profit and operating EPS comprises profit attributable to Securityholders adjusted for property and intangible valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items. Operating profit is used to present a clear view of the underlying profit from operations. It is used consistently and without bias year on year for comparability. A reconciliation to statutory profit is provided in summary on page 10 of the ASX Results Presentation announced on the ASX and available from the Investor Centre at www.goodman.com.

² Calculated based on weighted average diluted securities of 1,798.4 million which includes 11.1 million LTIP securities which have achieved the required performance hurdles and will vest in September 2017 and September 2018.