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Goodman upgrades FY18 EPS growth forecast to 8.0% due to positive first half performance and outlook for sustained growth

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Release	IMMEDIATE

Goodman Group (Goodman or Group) today announced its results for the half year ended 31 December 2017, delivering an operating profit[1] of $421.3 million, up 8.5% on 1H FY17 and operating earnings per share (EPS)[2] of 23.3 cents, up 7.9% on 1H FY17.

The Group has upgraded its forecast FY18 EPS to 46.5 cents, up 8% on FY17, with forecast full year distribution of 28.0 cents per security, up 8% on FY17.

Commenting on the result, Goodman's Group Chief Executive Officer, Greg Goodman said: "We have produced another strong mid-year result that reflects our deliberate strategy to reposition the Group's operations and balance sheet to deliver strong sustainable growth over the long-term.

In the last five years, we have sold over $11 billion[3] worth of assets to focus on core markets, moved 80% of the $3.5 billion development workbook into Partnerships and reduced gearing from 19.4% to 6.4%% – all while delivering 7.6% p.a. EPS growth over this time.

While these initiatives constrained the growth in rental income, management fees and development profits, it was carefully designed to ensure we delivered sustainable EPS growth, while repositioning the business to continue to deliver earnings growth in FY19 and beyond.

Now that the repositioning programme is substantially complete, we anticipate higher growth across our underlying businesses resulting in higher EPS. Investment earnings are expected to grow as the higher quality portfolio delivers strong rental income. Management earnings will be driven by net investment, growth in assets under management and performance fees, and development should benefit from strong demand in our core markets. Goodman has the operational capability and now also the financial flexibility to enable the Group to continue to capitalise on opportunities in a variety of market conditions."

Key highlights for the period are:

+ **Operating profit of $421.3 million[1], up 8.5% on 1H FY17**
+ **Operating earnings per security (EPS)[2] of 23.3 cents, up 7.9% on 1H FY17**
+ **First half distribution of 13.75 cents per stapled security, up 8.3% on 1H FY17**
+ **Net tangible assets of $4.38 per security, up 4%**
+ **Statutory profit of $542.7 million**

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+ **Total assets under management (AUM) of $34.6 billion with external AUM increased to $31.1 billion, despite asset sales**
+ **Transacted over $3.0 billion of asset sales in 1H FY18 completing an $11 billion sales programme**
+ **Valuation uplift of $1.2 billion across the Group and Partnerships reflecting both reduction in cap rates to 5.7% and net property income (NPI) growth of 3.0%**
+ **Development activity of $3.5 billion, now 80% undertaken within Partnerships**
+ **Group gearing remains low at 6.4% with $3.3 billion of liquidity available predominantly in cash**
+ **Significant reduction in weighted average cost of debt to 2.4%**
+ **Upgrade FY18 forecast operating EPS to 46.5 cents, up 8.0% on FY17**
+ **Forecast full year distribution of 28.0 cents per security.**

Results overview – operating performance reflecting strength in underlying businesses and capital management initiatives

Goodman's strong performance for the half reflects the successful repositioning of the underlying businesses which are well placed for sustainable growth in the future. Key highlights include:

+ Underlying rental growth of 3%, high occupancy at 98% and lower net interest expense have offset the dilutionary impact on earnings from asset sales
+ Increased management earnings reflecting increased performance fee contributions due to strong Partnership returns. AUM was stable as asset disposals were offset by positive valuations and development completions
+ Continued growth in development margins have counterbalanced the transition to off-balance sheet development.

The asset rotation initiatives also paved the way for substantial refinancing of the Group's debt which resulted in lower cost and extension of tenor, while keeping gearing low at 6.4%. This extensive liability management programme increased the Group's weighted average debt expiry from 3.7 to 7.6 years at interest rates more in line with the current market, as opposed to the historic rates it had been paying, and resulted in a significant reduction in weighted average cost of debt to 2.4%.

Goodman generated a statutory accounting profit of $543 million for the half year which consists mainly of the following:

+ $421 million of operating profit
+ $341 million of valuation gains representing the Group's share of the $1.2 billion of valuation gains across the entire platform
+ Other usual non-cash adjustments amounting to -$138 million for items such as unrealised derivative mark to market and debt translations and non-cash remuneration under the Group's long-term incentive program
+ $82 million of restructure expenses resulting from the completion of the Group's liability management initiatives. This cost, along with mark-to-market costs recorded in prior periods, has facilitated the restructure of the Group's liabilities.

Property Investment – continued portfolio performance sustained by repositioning

The $3.0 billion in asset sales transacted in the half, substantially concludes the portfolio repositioning programme into global gateway cities, where increasing urbanisation, rising consumerism and changes in technology, are creating increased competition between residential, higher intensity industrial, e-commerce and data centre uses. This is driving rents and land prices in locations where supply is already constrained and is increasing the value of our 17.4 million sqm under management which saw $1.2 billion in valuation uplift in the first half. Other key metrics include:

+ Like for like NPI growth of 3%
+ High occupancy at 98% maintained
+ Weighted average lease expiry steady at 4.8 years
+ 1.9 million sqm leased during the half equating to $217 million of annual property income.

Income growth was impacted by asset sales in the half, however this was partly offset by rental growth and completions. The Group is now moving to net positive investment, predominantly through the completions from the Group's $3.5 billion development programme. This should lead to sustained rental growth in the future.

Development – return on assets increases

Goodman's development activity has remained strong at $3.5 billion across 78 projects in 14 countries. The Group's selective choice of developments has improved the quality of the workbook, illustrated by strong pre-commitment results around the world. Key highlights include:

+ Forecast yield on cost of 7.7% driven by geographic mix of developments and rental growth
+ Development commencements of $1.4 billion with 57% pre-committed
+ Development completions of $1.4 billion with 88% pre-committed and 78% pre-sold.

With 80% of developments now conducted in the Partnerships, up from 69% a year ago, the transition to the Partnerships has materially improved development return on assets and reduced capital allocation by the Group. The solid development returns for Partners have also contributed to strong development performance fees, which have partly offset the impact on the Group of the transition to off-balance sheet revenue in the Partnerships.

Management – AUM expected to continue to grow driven by valuation gains and development completions

Management earnings were up 5% on the previous corresponding period reflecting performance fees from strong cumulative Partnership returns.

External assets under management increased by 3% up to $31.1 billion, despite asset sales completed in the Partnerships. This was due in large part to the increased quality of the portfolio delivering $1.1 billion in valuation gains and development completions across the platform.

The concentrated portfolio in quality locations within urban centres should continue to deliver strong returns for the Partnerships and support increased performance fees in future years.

Outlook – business set to deliver strong, sustainable growth

The outlook for industrial real estate continues to be positive as the macro trends impacting the sector continue unabated. E-commerce and technological solutions are driving change in all forms of consumer service fulfillment, and will continue to transform supply chain and space requirements.

Goodman has deliberately repositioned the business over the last five years by:

+ concentrating the portfolio in gateway cities
+ diversifying and extending funding sources and reducing financial leverage
+ transitioning development activity into the Partnerships
+ scaling up international operations.

This has resulted in a platform that can invest through the cycle, mitigating volatility in capital markets and supporting the growth of a sustainable business over the long-term.

The Group's global operations, concentrated in major cities, provides economies of scale with the ability to selectively deploy capital into appropriate geographies based on risk and return parameters.

Commenting on the outlook for the Group, Greg Goodman said, "We have set a strong platform for the future as we move our business through its next phase of steady growth.

We are taking a long-term view of the cities we operate in and are adapting to help our customers take advantage of the opportunities that changes in technology and urbanisation will bring.

Increasing urbanisation, rising consumerism and changes in technology, are creating increased competition between residential, higher intensity industrial, e-commerce and data centre uses, driving rents and land prices in areas where supply is already constrained.

Scarcity of sites in infill areas close to urban centres and consumers, combined with competing demand for quality locations, is creating land use intensification. We are increasingly seeing a shift towards multi-storey industrial facilities or changes of use to commercial and residential. As one of the world leaders in multi-storey logistics developments, Goodman is well placed to benefit from this growing trend.

Given the strong first half performance and sustained momentum into the second half, forecast FY18 operating EPS has been upgraded to 46.5 cents (up 8% on FY17) with forecast full year distribution of 28.0 cents per security (up 8% on FY17)."

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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 long-term returns for investors.

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[1] Operating profit comprises profit attributable to Securityholders adjusted for property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items.

[2] Operating earnings per share (EPS) is calculated using Operating Profit and weighted average diluted securities of 1,809.2 million which includes 12.3 million LTIP securities which have achieved the required performance hurdles and will vest in September 2018 and September 2019.

[3] Made up of $3.3 billion of asset sales from Goodman Group balance sheet assets and over $8 billion from Goodman Partnerships.