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Goodman's long-term strategy delivers sustained growth with operating profit of \$845.9 million, up 9% on FY17

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Release IMMEDIATE

Goodman Group (Goodman or Group) today announced its results for the full year ended 30 June 2018, delivering operating profit of \$845.9 million, up 9% on FY17, and operating earnings per share (EPS) of 46.7 cents, up 8.3% on FY17. Statutory profit was \$1.1 billion.

The Group's forecast operating profit for FY19 is \$913 million with operating EPS of 50.0 cents, up 7% on FY18.

Group Chief Executive Officer, Greg Goodman said: "This positive result reaffirms our long-term strategy to own, develop and manage high-quality industrial properties in gateway cities around the world.

The portfolio performance continued to be the key driver of the operational result with property fundamentals steadily improving in FY18. By having the right properties in the right locations to meet our customers' needs, we have achieved like-for-like net property income (NPI) growth of 3.2% and 98% occupancy across the portfolio, contributing to an increase in global valuations of \$2.8 billion.

Our Partnerships are continuing to deliver strong results, achieving an average total return of 15% for FY18. External assets under management (AUM) are also up 15% on FY17 to \$35.1 billion, with total assets under management of \$38.3 billion, up 11% on FY17. Revaluations and net investment, predominantly through our development activity, will support further AUM and NPI growth.

Advances in technology, the growth of e-commerce, changes in consumer behaviour and modernisation of supply chains remain significant drivers of customer demand globally. This continues to have a positive impact on our development workbook with work in progress increasing to \$3.6 billion. Having land in key locations is critical to providing the opportunity and flexibility for our customers to have modern facilities developed in a manner that is both timely and meets their own customer service standards. Goodman's global development pipeline of over \$10 billion is concentrated in key markets and is designed to cater to that demand.

Intensification of land use and competition for scarce sites from residential, e-commerce and data centres in urban locations, continues to drive rents and land prices upwards. We will maintain our disciplined approach to investment, while being proactive with our customers in providing flexible solutions to cater to these changing market conditions."

Goodman Group

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Key financial and operational highlights for the period are:

Financial highlights

- + **Operating profit of \$845.9 million¹, up 9% on FY17**
- + **Operating EPS² of 46.7 cents², up 8.3% on FY17**
- + **Total distribution of 28.0 cents per stapled security (DPS), up 8.1% on FY17**
- + **Net tangible assets (NTA) per security up 10% to \$4.64**
- + **Statutory profit of \$1.1 billion**
- + **Strong cash flows have resulted in reducing gearing to 5.1%³ (look through gearing at 16.3%) and interest cover ratio (ICR) of 16.2 times**
- + **Liability management exercises have lowered WACD⁴ to 2.4% with \$3.4 billion of liquidity available at 30 June 2018, predominantly in cash**
- + **Forecast FY19 operating earnings of \$913 million and EPS of 50.0 cents (up 7% on FY18)**
- + **Forecast FY19 distribution of 30.0 cents per security (up 7% on FY18) with payout ratio unchanged.**

Operational highlights

- + **Total AUM of \$38.3 billion with external AUM up 15% to \$35.1 billion, driven by valuation increases and development completions**
- + **Valuation uplift of \$2.8 billion across the Group and Partnerships**
- + **Continued strength in property fundamentals resulting in occupancy at 98%, weighted average lease expiry (WALE) of 4.8 years and net property income growth of 3.2%**
- + **Development work in progress (WIP) increased to \$3.6 billion across 80 projects in 12 countries with a forecast yield on cost of 7.2%**
- + **Partnership average total return of 15% for FY18.**

Results overview – long-term strategy delivers sustainable growth while reducing risk

Goodman's results reflect its asset rotation and refinancing programmes designed to deliver on its long-term strategy. The Group has been focussed on reducing risk while maintaining a competitive rate of EPS growth.

The Group generated a statutory accounting profit of \$1.1 billion for the full year including its share of the \$2.8 billion of valuation gains, derivative and foreign currency mark to market losses and other non-cash or non-recurring items.

Goodman continued to outperform its targets, delivering operating profit of \$845.9 million, EPS growth of 8.3% (vs FY17) and DPS growth of 8.1%. NTA increased 10% to \$4.64 per security, while keeping gearing low at 5.1% (16.3% on a look through basis). The Group has \$3.4 billion in cash and available lines of credit at 30 June 2018, while the Partnerships have \$12.1 billion of liquidity available to participate in future growth opportunities.

The FY18 results saw continued strong contributions from the development and management operations offset the impact of asset sales on property investment income. Management earnings were up 18.7% with the development and management businesses contributing 59% of total EBIT, up from 56% in FY17.

Property Investment – high-quality portfolio delivers

Property fundamentals remain strong, with the portfolio focussed in major urban centres around the world where land is scarce and competition from multiple uses is increasing. This concentration in infill markets is delivering high occupancy globally and supporting rental growth. Property investment income was slightly lower than FY18 at \$384.8 million for the Group, as underlying growth was offset by asset sales over the last two years. Sale proceeds have kept leverage low and are funding new development activities, which are expected to drive higher returns in the future.

Key highlights include:

- + 3.5 million sqm leased
- + Occupancy maintained at 98%
- + WALE of 4.8 years
- + Like-for-like net property income growth of 3.2%
- + Weighted average capitalisation rate (WACR) of 5.5%.

Development – strong customer demand globally drives growth in workbook with increased completions

Customer demand remains strong globally and Goodman has increased its WIP to \$3.6 billion across 80 projects in 12 countries. With 76% of the WIP undertaken in partnerships, return on assets for the Group has increased to more than 20%. Strong development returns have also positively contributed to Partnership returns and performance fees.

Other key development highlights include:

- + Development earnings increased to \$490.6 million, up 2%
- + Development commencements of \$3.2 billion with 67% pre-committed
- + Development completions of \$3.5 billion with 87% committed.

Goodman is increasingly working with its global customers to source warehousing solutions across multiple markets with land acquisitions focussed on supply constrained cities.

Management – positive revaluations and development completions driving strong earnings

Management revenues are up 19% due to the positive performance of Goodman's Partnerships. Partnership returns averaged 15% driven by their share of the \$2.8 billion in revaluation gains and \$3.5 billion of development completions. Performance fee income has grown to represent around one quarter of the revenue from this segment as infill locations continue to provide stronger rental growth and development demand.

Other key management highlights include:

- + Growth in external AUM to \$35.1 billion
- + Average Partnership gearing reduced to 19.2%
- + Additional equity commitments of \$1.4 billion in FY18, taking undrawn equity commitments to \$7.9 billion.

These strong returns are supporting performance fees for the Group and are expected to drive further underlying base management revenue. AUM is expected to grow through net investment in our development pipeline and valuation growth due to the focus on urban locations.

Outlook – delivering sustained performance through long-term decision making

Goodman has continued to deliver strong financial results in FY18. These are underpinned by the expertise of its people and the consistent long-term decision making and collaboration across its international businesses. The interests of Goodman's people and Securityholders are aligned with the business strategy through Goodman's remuneration structure, which has a significant emphasis on long-term, at risk remuneration. All Goodman's people participate in its Long-Term Incentive Plan.

Commenting on the outlook for the Group, Greg Goodman said, "Our industry is experiencing transformational change brought about by rapid changes in technology and urbanisation of cities.

The Group's strategy is designed to deliver sustainable performance over the long term and we have continued to concentrate our portfolio in infill and urban locations providing our customers with proximity to their end consumers. These portfolio decisions have driven our operational performance again this year and with market conditions expected to remain favourable for FY19, the outlook across our business is robust.

Intensification of use and timely development of Goodman's existing infill sites into significantly higher value assets should continue to support strong returns, the development pipeline and AUM growth in future years.

For FY19 market conditions are expected to remain favourable for our industry and Goodman is strategically well-placed given our financial and operational strength. We set our targets annually and review them regularly. For FY19, forecast operating profit is \$913 million which equates to operating EPS of 50.0 cents, up 7% on FY18, and forecast distribution is 30.0 cents per security."

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About Goodman

Goodman Group is an integrated property group with operations throughout Australia, New Zealand, Asia, Continental 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 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 securities of 1,810.8 million which includes 12.0 million LTIP securities which have achieved the required performance hurdles and will vest in September 2018 and September 2019.

³ Gearing is calculated as total interest-bearing liabilities over total assets, both net of cash and the fair values of derivative financial instruments included in other financial assets of \$154.3 million (2017: \$169.8 million) that hedge the net investments in Continental Europe and the United Kingdom. The interest-bearing liabilities also includes fair values of derivative financial instruments included in other financial liabilities of \$31.9 million (2017: \$nil) that hedge the net investment in Continental Europe.

⁴ Weighted Average Cost of Debt inclusive of derivatives and facility costs.