ASX release

Goodman Group delivers operating profit $1.5 billion, statutory profit of $3.4 billion and 24% EPS growth

16 August 2022

Goodman Group (Goodman or Group) today released its results for the full year ended 30 June 2022. The Group delivered operating profit [1] of $1,528 million, up 25% on FY21, and operating earnings per security (EPS) of 81.3 cents [2], up 24% on the previous year. Statutory profit was $3,414 million.

The Group's FY23 forecast operating EPS is 90.3c, up 11% on FY22.

Key highlights for the period are:

Financial

+ Operating profit[1] of $1,528 million, up 25% on FY21
+ Operating EPS[2] of 81.3 cents, up 24% on FY21
+ Statutory profit of $3,414 million (includes the Group's share of valuation gains, non-cash items and derivative and mark to market movements)
+ Gearing at 8.5%[3], (6.8% at FY21) (look through gearing at 19.6%)
+ Available liquidity of $2.8 billion (excludes available equity commitments[4], cash and undrawn debt of $18.1 billion in Partnerships)
+ Net tangible assets (NTA) per security of $8.37 per security, up 25% from FY21.

Operational

+ Total assets under management (AUM) of $73.0 billion, up 26% on FY21
+ $8.5 billion of revaluation gains across the Group and Partnerships
+ Portfolio occupancy remains high at 98.7%[5] and like-for-like net property income (NPI) growth of 3.9%[5]
+ Development work in progress (WIP) up 28% on FY21 to $13.6 billion, across 85 projects, with a forecast yield on cost of 6.6%
+ Validated science-based emissions reduction targets and significant progress with other ESG targets including solar, renewable energy, safety, and embodied carbon.

Group Chief Executive Officer, Greg Goodman said:

"Goodman Group delivered a strong result for FY22, reflecting the strong demand for industrial space in our markets. Our customers' need for more productivity and sustainability from their supply chains continues to drive demand. By focusing our portfolio and $13.6 billion development workbook on key infill locations, we have had seen accelerating market rental growth, significant valuation uplift and subsequent outperformance of our Partnerships.

Assets under management have grown 26% to $73 billion, with an average total return of 21.4%[6] for our Partnerships. Capital management activity has continued across the Group and Partnerships, where we raised $1.8 billion in third party equity and completed $8.5 billion of debt refinancings over the year. As a result, the Group's balance sheet remains well positioned with low gearing at 8.5% and $2.8 billion of available liquidity and $18.1 billion available across the Partnerships."

Property investment – underlying property fundamentals remain strong in our markets

The structural changes driving demand for industrial property have continued. The digital economy is growing alongside our customers' need for greater supply chain efficiency and sustainable properties close to consumers.

Property investment earnings increased 20% to $494.6 million. This is underpinned by low supply in our markets, continued strong occupancy at 98.7%[5], revaluation gains of $8.5 billion, development completions and growth in market rents.

Like-for-like net property income (NPI) growth was 3.9%[5]. Market rental growth has accelerated, and as a result, rent reversion to market across our portfolio has continued to expand. Higher increases from CPI linked reviews and market reversion should positively impact future growth.

Key highlights include:

+ High occupancy increased to 98.7%[5]
+ Like-for-like NPI growth at 3.9%[5]
+ Weighted average lease expiry (WALE) of 5.2 years[5], up from 4.8 years due to longer lease terms on development completions
+ Leased 4.5 million sqm[5] for the 12-month period to 30 June 2022, equating to $551.9 million[5] of annual rental property income

Development – WIP grows to $13.6 billion, with 99% leased on completion

Development earnings were up 34% to $960.7 million. With stabilised occupancy at 98.7%[5], organic growth through our $13.6 billion development book continues to provide our customers with a source of quality properties in key locations.

The volume, scale and value of the work in progress has increased, and the production rate averaged approximately $7 billion for the year. Strong demand for our properties resulted in leasing of completed developments averaging 99%. WALE on development completions is averaging 12.2 years, as customers look to maximise the investments they are making in technology and secure the strategic locations for longer.

Construction costs have continued to increase globally. However, margins remain strong as rent growth has accelerated, and is outpacing the impact of increases in construction costs across the portfolio. Consistent execution of our development workbook and value add across our sites is contributing to margins and offsetting cost pressure.

Key highlights include:

+ WIP increased 28% to $13.6 billion with 62% pre-committed. At completion, projects were 99% leased on average, reflecting the strong customer demand for the Group's sites
+ 85 developments in WIP with more than 50% brownfields and significant multi-storey projects as the Group works to optimise land in key locations and deliver sustainable properties
+ Continued investment partnering with 85% of developments undertaken in the Partnerships or for third parties
+ Development yield on cost of 6.6%
+ WALE of 14.2 years for projects in WIP with 62% pre-committed.

Management – strong growth in AUM through ongoing development and revaluations

Partnership total returns averaged 21.4%[6] contributing to growth in management earnings to $588.4 million, up 28% on FY21. Performance fees contributed $208 million.

As a result of the $6.0 billion in development completions and strong valuation growth, AUM in the Group's 16 Partnerships has grown 27% to $68.7 billion.

Key management highlights include:

+ External AUM of $68.7 billion, up 27% on FY21
+ Performance fees of $208 million
+ Average Partnership gearing of 17.5%
+ $18.1 billion available in equity commitments[4], cash and debt.

Environmental, social, governance – delivering on our commitments

During FY22, Goodman made significant progress against our ESG targets. Our 2030 Sustainability Strategy provides a blueprint and is a fundamental contributor to our strong performance and long-term strategy.

Working with our customers and reducing our carbon emissions remains a priority. This year the Group developed emissions reduction targets validated by the Science Based Targets initiative (SBTi) as being aligned with the Paris Agreement's 1.5°C pathway. We are also on track to maintain carbon neutrality for our operations, following certification as a Carbon Neutral Organisation by Climate Active last year.

To achieve this, we have increased our solar PV installations and commitments across the global portfolio by 78MW this year to reach 203MW – over halfway to our 2025 target of 400MW. We are also measuring the embodied carbon of our new developments in order to reduce and offset, as we transition to carbon neutral developments with several carbon neutral or low carbon developments already underway.

Key ESG highlights include:

+ SBTi validation of our science-based targets to reduce carbon emissions aligned with a 1.5°C pathway
+ Measurement of embodied carbon in all new developments for reduction and offsetting
+ Surpassing the halfway mark of our solar PV installations target - now 203MW against a 400MW target
+ Development of our Sustainability Linked Bond Framework and launch of the Group's first US$500 million Sustainability Linked Bond into the US144A market
+ Identified as a top ESG performer by Sustainalytics, with an overall ESG rating of 'Negligible Risk'
+ The Goodman Foundation contributed more than $10.6 million in cash, plus another $1 million in staff fundraising and in-kind contributions during the year. This takes our total investment since 2019 to $37.3 million, on track to reach our $50 million 2030 target.

Outlook – Strong demand and balance sheet provide resilience in market volatility

Commenting on the outlook, Greg Goodman said:
"Our focus on key locations and capital management is providing resilience during a period of economic uncertainty and supporting a positive outlook for the business. Goodman is well positioned to continue to adapt to ongoing market volatility and geopolitical tensions. We remain patient and disciplined in our capital allocation to appropriate opportunities.

While interest rates and inflation may impact consumers, they continue to seek faster and more flexible delivery. This requires ongoing intensification of warehousing in urban locations to optimise delivery and we're working closely with our customers to maximise productivity and sustainability in their facilities.

Demand is currently exceeding supply in our markets, supporting our development-led growth strategy and producing well-located assets for the Group and our Partnerships. In addition to strategic site acquisitions, the opportunities for regenerating existing assets support our future development workbook by providing value add opportunities, while reducing our environmental impact. Our production rate, depth of customer demand and strong margins are supporting the outlook for development earnings into FY23.

We have made a strong start to FY23 with a significant development workbook underway, continued underlying structural demand from customers, and a robust capital position across the Group and Partnerships. We believe the Group is positioned to continue to deliver growth notwithstanding risks associated with current market volatility and we expect FY23 operating EPS growth to be 11%."

The distribution is forecast to remain at 30.0 cents per security for FY23 to help fund the Group's significant development workbook and is in line with the Group's Financial Risk Management policy.

Goodman sets its targets annually and reviews them regularly. Forecasts are subject to there being no material adverse change in market conditions, or the occurrence of other unforeseen events.

– ENDS –

Authorised for release to the ASX by Carl Bicego, Group Head of Legal and Company Secretary.

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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.

For more information visit: www.goodman.com

[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 EPS is calculated using operating profit and weighted average diluted securities of 1,879.0 million which includes 15.3 million LTIP securities which have achieved the required performance hurdles and will vest in September 2022 and September 2023.

[3] Gearing is calculated as total interest bearing liabilities over total assets, both net of cash and the fair values of certain derivative financial instruments included in other financial assets of $133.3 million (30 June 2021: $134.1 million). Total interest bearing liabilities are grossed up for the fair values of certain derivative financial instruments included in other financial liabilities of $79.6 million (30 June 2021: $62.3 million).

[4] Partnership investments are subject to Investment Committee approval.

[5] Partnership industrial and warehouse assets (excludes office properties which have been earmarked for redevelopment) and represents 97% of Partnership assets

[6] For the respective Partnership year ends