Goodman

ASX release

Goodman Group delivers strong operating profit of $1,783 million and FY23 EPS growth of 16%

17 August 2023

Goodman Group (Goodman or Group) today released its results for the full year ended 30 June 2023. The Group delivered operating profit [1] of $1,783 million, up 17% on FY22, and operating earnings per security (EPS) of 94.3 cents [2], up 16% on the same period last year. Statutory profit was $1,560 million.

The Group's FY24 forecast operating EPS is 102.9c, up 9% on FY23.

Key highlights for the period are:

Financial

+ Operating profit[1] of $1,783 million, up 17% on FY22
+ Operating EPS[2] of 94.3 cents, up 16% on FY22 and ahead of recent guidance
+ Statutory profit of $1,560 million (includes the Group's share of valuation gains, non-cash items and derivative and mark to market movements)
+ Gearing at 8.3%[3], (8.5% at FY22) (look through gearing at 20.8%)
+ Group available liquidity of $3.1 billion
+ Net tangible assets (NTA) per security of $9.12 per security, up 9% from 30 June 2022.

Operational

+ Total assets under management (AUM) of $81.0 billion, up 11% on FY22
+ $0.8 billion of revaluation gains across the Group and Partnerships
+ Portfolio occupancy remains high at 99%[4] and like-for-like net property income (NPI) growth is 4.7%[4]
+ Development work in progress (WIP) is $13.0 billion, across 81 projects, with a forecast yield on cost of 6.6%
+ On track to achieve key Group sustainability targets including 306MW of solar PV installed or committed in FY23, taking us to 75% of our 400MW 2025 target.

Group Chief Executive Officer, Greg Goodman said:

"Goodman Group has continued to perform strongly in FY23 with the quality and location of our sites underpinning rental growth, property values and development activity. Despite the macro uncertainty, structural drivers remain sound, driven by the digital economy, the need for more efficient and sustainable assets, and limited supply in our markets.

These locations are also providing value-add opportunities, as we see increased competition for industrial sites from other uses such as data centres and potential residential rezoning. Significant growth in data storage and AI in particular, is driving data centre demand which is now approximately 30% of our $13 billion development workbook, and importantly we have a pipeline of over 3GW which has significant value over time.

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Assets under management have grown 11% to $81 billion, driven primarily by $6.9 billion in development completions, in addition to acquisitions and revaluations across the Group and Partnerships. Combined these contributed to 9% growth in NTA.

Capital management discipline saw the Group maintain a strong balance sheet that provides flexibility to take advantage of opportunities. We raised $1 billion of new equity commitments in Partnerships and completed $6.4 billion of debt refinancing across the Group and Partnerships. The Group's gearing remains low at 8.3% while having $3.1 billion of available liquidity, which provides financial flexibility. There is also significant liquidity of $17.6 billion in the Partnerships[5]."

Property investment – underlying property fundamentals remain strong

Goodman's strategic site selection has seen underlying property fundamentals remain strong in our markets. Property investment earnings are up 7% to $531.4 million, and we continue to experience high occupancy of 99%[4] with expected positive rental reversions to market in most locations. While like-for-like net property income (NPI) growth has grown to 4.7%[4], the reversion of current passing rents to those achievable in the market over the coming years, is on average 25%. This ranges from 1% reversion in Asia, 17% CE/UK, 37% in Australia/NZ and 66% in the US. This should support growth in cash flows over the next few years, as well as valuations.

Supply continues to be constrained in our chosen markets, with data centres and potential urban renewal placing greater pressure on the amount of land available for industrial use.

Key highlights include:

+ High occupancy of 99%[4] maintained
+ Like-for-like NPI growth at 4.7%[4]
+ Leased 2.5 million sqm[4] over the 12 months, equating to $352 million[4] of annual rental property income
+ The significant level of potential reversion to market in the US, Australia, New Zealand, Europe and the UK presents opportunity for income growth, with new leases subject to higher annual reviews than the existing leases on average
+ Weighted average lease expiry (WALE) of 5.5 years[4], up from 5.2 years
+ Net revaluations were positive for FY23 overall at $0.8 billion, with strong results in North America and Australia offsetting other parts of the world.

Development – Strong margins and changing composition of WIP

Goodman's development earnings were up 35% on FY22, increasing to $1,301 million, with the most significant contributions coming from Australia, Continental Europe and North America. Our execution has been strong, and we have continued to be able to manage the rising cost environment, with yield on cost remaining at 6.6%.

Our urban infill locations continue to be in demand, with 99% of our developments leased on completion. This is despite moderating demand for industrial space overall. The digital economy is driving customer requirements – with supply chain optimisation, productivity, and increasing data storage and computer processing power competing for industrial space in our locations. The Group and Partnerships have a significant prospective pipeline of data centre sites, with secured and potential power allocation of >3GW. Data centre projects currently represent approximately 30% of our $13.0 billion workbook, and are likely to remain a significant portion of developments in coming years.

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The barriers to entry in our markets are getting higher, with increased planning complexities and significant regeneration required for urban infill sites, as well as difficulties in securing power. Currently more than half of our WIP is on brownfield sites, as we continue to acquire sites around the world which are providing future regeneration opportunities.

We continue to deliver planning and development outcomes in these complex environments. Combined with increasing change of use requirements, we expect this to provide a range of opportunities, supporting underlying fundamentals and future development earnings. Given the current direct ownership of sites with potential for redevelopment, a greater portion of the development activity could be originated on the Group's balance sheet in the future. This would mean that a greater portion of the return generated can be in operating profit instead of valuation gains.

Key highlights include:

+ WIP of $13.0 billion with annual production rate at approximately $7 billion
+ 81 projects in WIP in 12 countries, covering 3.4 million sqm
+ Development yield on cost of 6.6% for projects in WIP, 6.5% for commencements
+ WALE of 12.7 years for projects in WIP, 15.0 years for commencements.
+ 99% of completions are leased, while 57% of commencements are pre-leased, demonstrating the effectiveness of our leasing teams and our strategic locations.

Management – strong growth in AUM through ongoing development and revaluations

External assets under management are up 11% to $76.3 billion from FY22 driven by development completions, acquisitions and rental growth. This has helped mitigate the 51 basis points of cap rate expansion seen over the year. Goodman delivered average total returns of 7.3% across the Partnerships, while management earnings of $481 million are down on FY22 due to the timing of performance related income that is to be assessed in FY24.

The investment management platform expanded throughout the year with the establishment of four new Partnerships and $1 billion in new capital commitments. The Partnerships have $17.6 billion of available liquidity including equity commitments, cash and undrawn debt.

Key management highlights include:

+ External AUM of $76.3 billion, up 11% on FY22
+ Increasing number of Partnerships from 16 to 20
+ Average Partnership gearing of 19.5%
+ $17.6 billion available in equity commitments[5], cash and debt.

Environmental, social, governance – building resilience

Guided by our 2030 Sustainability Strategy, Goodman continues to integrate ESG into its business. Our focus throughout FY23 remained on reducing carbon emissions in line with our targets validated by the SBTi. We prioritised renewable electricity, installing or committing to 103MW of solar PV this year. Our solar PV rollout presents an opportunity to generate renewable energy certificates, which contribute towards our renewable electricity target. We now have a total of 306MW, which is approximately 75% of the way to achieving our 2025 target. We continue to invest in the health, safety and wellbeing of our people and the communities we operate in. We strengthened our safe working culture resulting in zero contractor fatalities in FY23 and contributed $10.8 million to community and philanthropic causes to make a positive tangible impact.

Key ESG highlights include:

- Increasing our solar PV installations or commitments across the global portfolio by 103MW to reach 306MW in FY23
- We remain committed to being a Carbon Neutral Organisation certified by Climate Active for our global operations
- Receiving official endorsement of Goodman Australia's Reconciliation Action Plan (RAP) and implementing initiatives to provide tangible and substantive benefits for First Nations peoples
- Strong performance in ESG benchmarks (GRESB, Sustainalytics and MSCI).

Outlook – Driven by broad opportunities

Commenting on the outlook, Greg Goodman said:

"Goodman is positioned well for FY24. Our focus on the digital economy, and our concentration in high barrier to entry markets, is supporting the positive outlook for occupancy, rents, continued development activity and the performance of our Partnerships.

Competition for land from a broad range of alternative uses is further impacting supply in our markets but broadening the customer base and opportunities for development. These opportunities include intensification to create multi-level industrial, data centre developments where we have secured or identified greater than 3GW of potential power within our existing portfolio, and the next phase of the urban renewal cycle where we potentially have significant opportunities to realise value within our Australian portfolio.

The Group will continue to maintain a strong balance sheet, which combined with retained income, provides significant liquidity, stability and financial resources to manage risk and opportunity. Our Capital Partners are prudent but continue to support investment into the Partnership platform.

With our significant development workbook underway, underlying structural demand from customers and robust capital position across the Group and Partnerships, we believe Goodman can continue to deliver growth despite the risks associated with current market volatility. We expect FY24 operating EPS growth to be 9%."

The forecast distribution for FY24 remains at 30.0 cents per security given the Group's activity levels and the current desire to remain in the lower half of our financial risk management policy range for gearing.

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 a global industrial property specialist group with operations in key consumer markets across Australia, New Zealand, Asia, Europe, the United Kingdom, and the Americas. Goodman Group, comprised of the stapled entities Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited, is the largest property group on the Australian Securities Exchange (ASX: GMG), a top 20 entity by market capitalisation, and one of the largest listed specialist investment managers of industrial property globally.

Goodman provides essential infrastructure for the digital economy by owning, developing, and managing high-quality sustainable properties that are close to consumers in key cities around the world. Our property portfolio includes logistics and distribution centres, warehouses, light industrial, multi-storey industrial, business parks and data centres. We take a long-term view, investing significantly alongside our capital partners in our investment management platform and concentrating our portfolio where we can create the most value for customers and 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 1,890.7 million which includes 12.1 million LTIP securities which have achieved the required performance hurdles and will vest in September 2023 and September 2024.

[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 $81.7 million (30 June 2022: $133.3 million). Total interest bearing liabilities are grossed up for the fair values of certain derivative financial instruments included in other financial liabilities of $34.2 million (30 June 2022: $79.6 million).

[4] Partnership industrial and warehouse assets (excludes office properties which have been earmarked for redevelopment) and represents 95% of Partnership assets

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