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Goodman delivers strong first half FY17 results with operating profit of $388 million

Date	16 February 2017
Release	IMMEDIATE

Goodman Group (Goodman or Group) today announced its results for the half year ended 31 December 2016, delivering an operating profit of $388 million and statutory profit of $557 million. The execution of the Group's strategy saw strong operating performance demonstrated across all segments of the business. Goodman is revising up its FY17 operating EPS guidance to 43.1 cents, a 7.5% increase over FY16.

Key financial highlights for the period ended 31 December 2016 include:

+ **Operating profit of $388 million, up 9% on 1H FY16**
+ **Gearing reduced to 8.7%**
+ **Distribution per security of 12.7 cents, up 6.7% on 1H FY16**
+ **Statutory accounting profit of $557million, includes $275 million valuation gains, contributing to 3.4% growth in net tangible assets to $4.24 per security**
+ **$2.8 billion of liquidity available**
+ **For the full year, the Group is forecasting FY17 operating EPS growth of 7.5%, following strong first half performance with continued momentum into the second half**

Goodman's Group Chief Executive Officer, Greg Goodman said: "The Group has delivered strong results in the first half with operating profit of $388 million, a 9% increase on the same period last year which equates to growth in operating earnings per security of 7.5%".

"We have continued with the disciplined execution of our strategy to invest and develop in quality locations in major urban centres. Asset rotation, the gateway city strategy and structural macro themes that have been evolving for the sector, are all creating significant opportunities for Goodman to continue to strengthen the quality of its operating platform. This is reflected in the strong progress demonstrated across all areas of the business with sound market conditions during the first half of FY17."

The key structural themes that have been driving the Group's growth remain unchanged. Goodman continues to focus on the execution of its strategy, capitalising on consumerism and the e-commerce led demand for modern, high quality logistics space in key gateway cities globally.

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The Group will continue to focus on servicing its customers and investing capital alongside its partners in these key locations.

Goodman's long-term plan has enabled it to capitalise on the significant growth opportunities presented by the e-commerce sector globally. This has resulted in logistics operators expanding their distribution networks and demanding high quality, modern logistics facilities in prime locations that enable them to meet their customers needs. A growing middle class in developing countries is also fuelling this demand.

The evolving needs of Goodman's global customers to meet new market demands are also providing significant opportunities for the Group. Global operators are seeking to consolidate, rationalise or automate facilities to achieve greater cost efficiencies and drive more value from their property solutions. This in turn generates demand for high quality sites in proven logistics locations, close to major urban centres.

Goodman's global operating platform covering 16 countries and 33 key cities underpins the capability to meet the long term needs of its global customers and investment partners. The geographic diversity of the business enhances the stability of earnings, and has seen the contribution from markets outside Australia grow to in excess of 60% of operating EBIT.

Statutory accounting profit under IFRS of $557 million includes property valuations of $275 million for Group and its share of the Partnerships, derivative and foreign currency mark to market and other non cash or non recurring items.

The Partnerships have continued to perform well. Valuation uplifts for the half were driven by repositioning of the Group's global portfolio of $34.8 billion which has had a positive impact on underlying valuation growth and returns. Assets revalued generated a total uplift of $1.0 billion, reflecting a 3% increase in external assets under management since June 2016, with $0.9 billion of uplift attributable to the Partnerships. There are four key contributors to this valuation performance:

+ Concentration on consumer dominated markets and in particular infill sites, which are characterised by stronger rental growth as demand for space competes in supply constrained environments, with change of use adding to the tightness of space availability. This reflects strongly across the global portfolio with average upward rental reversion at 2.9%
+ The strengthening underlying fundamentals are being reflected in stronger cap rates as more conviction regarding rental growth is supporting total return expectations and investors continue to pay a premium for location. The Group's weighted average cap rate across its $34.8 billion of real estate tightened to 6.0% at December
+ The Group remains selective and targeted in its development commitments, focusing on gateway city locations which are delivering strong leasing results (completed developments were 90% leased for the half) and expected to provide superior returns over the long term
+ Urban Renewal remains a strong contributor to the strength of the balance sheet, and through active management of the sites with change of use possibilities (potentially accommodating 35,000 apartments), will continue to deliver valuation uplifts over time. $2.3 billion of sites have been conditionally contracted across the Group over the past two years with more than $1.0 billion expected to be settled by 30 June 2017

Operations

The Group achieved an operating EBIT of $474 million, up from $452 million in the prior corresponding period. The development and management businesses remained the key drivers of the out-performance with a combined 61% contribution. The strength of the development business which contributed 39% and management business which contributed 22% of EBIT in the first half, was again driven largely by the strong ongoing demand for prime industrial space across Goodman's global markets. Investment income remained flat compared with the same period last year as a result of asset sales.

Investments

The Group continued its clear and structured program of improving the quality of the portfolio by concentrating investment in gateway cities, disposing of a further $1.9 billion of assets in the half (excluding urban renewal).

Investments contributed operating EBIT of $196 million, representing 39% of EBIT, compared with $206 million during the same period last year, with strong underlying rental growth offset by asset sales.

Selective rotation of assets, has continued to provide capital for redeployment into development, which remains the most attractive opportunity to the Group. Investment yields have tightened to 6.0% reflecting strength in the market and concentration of ownership in high quality product.

Underlying property fundamentals remained sound as at 31 December:

- 1.7 million sqm leased globally, equating to $220 million of annual rental property income across the Group and Partnerships
- 96% occupany rate maintained
- Retention high at 81% with a WALE at 4.8 years
- Like for like rental growth of 2.6% and positive lease reversions of 2.9% on new leasing

Developments

The Group continued with its selective development led strategy across key gateway cities, driven by the ongoing demand for prime, well-located logistics space and the positive impact of the structural themes within the industrial sector.

Key highlights for the period include:

- Development WIP at $3.5 billion with 62% pre comitted across 81 projects in 14 countries
- Forecast yield on cost of 7.6%
- Development commencements of $1.5 billion with 64% pre committed and 53% pre-sold to Partnerships or third parties

- Development completions of $1.3 billion with completed developments for the period being 90% leased and 72% pre sold to Partnerships or third parties, with the remainder subsequently transacted

Development EBIT increased by 12% to $198 million, an increase from $177 million for 1H FY16. Tightening cap rates continue to support margins and also drive returns in development Partnerships leading to performance fees.

The Group retains its prudent approach to development, diversifying the exposure through partnering in most markets and limiting speculative development to supply constrained, proven logistics locations. As a result 90% of developments were pre committed and 72% pre-sold on completion. New development commitments are being selectively targeted and executed within the gateway city strategy.

Management

Our management business is underpinned by the relationships with our capital partners who represent some of the largest investors in the world. Their co-investment enables the Group to achieve scale and diversification and provides access to substantial financial resources and knowledge. This in turn gives the Group the ability to resource its business to manage the assets to a high standard of service for customers.

Management activities contributed $110 million or $22% of operating EBIT, up from $99 million in 1H FY16. Total assets under management (AUM) increased to $34.8 billion across 383 properties, with external AUM up 3% over the half to $30.1 billion. This is net of asset sales of $1.7 billion, undertaken within the Partnerships in the half. The sales programme provided sufficient capital to enable the Partnerships to be largely self funded, keeping gearing levels low and limiting the need to draw down equity.

Undrawn debt facilities and cash of $4.1 billion and $6.8 billion in undrawn equity provides $10.9 billion of capital commitments available across the sixteen managed Partnerships to support selective opportunities. This further contributes to the Group strategy of improving the overall quality and location of the portfolio to provide improved service options to meet the needs of our global customers.

Market pricing and investment demand remained strong in the half, supporting transactional activity and strong Partnership returns.

Management income growth was also driven by the transactional activitites and strength in asset pricing which resulted in a $900 million uplift in valuation across the Partnerships, and a global WACR of 6%.

Capital Management

Consistent with Goodman's long-term view and commitment to delivering sustainable growth and competitive returns, the Group has continued to undertake significant activity in ongoing balance sheet improvement. This provides the Group operational flexibility and capacity to appropriately fund its workbook, absorb any changes in market volatility and take advantage of growth opportunities.

Key highlights this half included:

+ Continued assets sales and completion of contracted urban renewal settlements have seen Group liquidity increase to $2.8 billion at the period end
+ As a result, a continued decline in gearing to 8.7%, with expected settlement of contracted sales likely to see further significant reduction in gearing by the end of the financial year
+ Gearing across the Partnership platform also continued to decline with a similarly strong liquidity position and long average debt expiry and the Group's look through gearing now at 20.6%
+ Refinanced $3.2 billion of debt across the Group and Partnerships, with $1.7 billion issued in bond markets and $1.5 billion in new banking facilities, extending tenor materially and preserving liquidity
+ The Group has a weighted average debt maturity profile of 4.1 years, with debt maturities fully covered until June 2020

The Group continues on its trajectory of financial strength and resilience, and alongside its partners, has significant capacity to support the development book and future opportunities.

Outlook

The first half results are a reflection of the focus Goodman has had on executing a structured strategy of portfolio and balance sheet improvement, with the business well positioned for sustainable growth through the cycle. The programme of asset sales is largely completed, and while deployment is ongoing, the focus on high quality development in gateway cities has improved the portfolio quality and is expected to lead to superior returns. The Group's $34.8 billion of AUM, provides a broad diversity of earnings across the business divisions and global diversification. In addition the net cash proceeds have provided the group significant financial flexibility through low gearing and high levels of liquidity. Settlement of contracted Urban Renewal sites will see gearing fall further through to the full year result.

Development activity is expected to remain strong, driven by continuing structural themes, including the growth in consumerism globally and continuing evolution of e-commerce and supply chain transformation. The Group is selectively undertaking projects that meet its strategy and financial requirements.

Given the positive start to the year, Goodman is now forecasting FY17 operating earnings per security of 43.1 cents, up 7.5% on FY16, and a forecast full year distribution of 25.9 cents per security, up from 24.0 cents per security in FY16.

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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 sustainable long-term returns for its Partners.

For more information: www.goodman.com