



# FY17 RESULTS PRESENTATION

23 August 2017

[www.industriareit.com.au](http://www.industriareit.com.au)

ASX: IDR



**INDUSTRIAREIT**

# Agenda

---

**01** Highlights and financial results

---

**02** Investment Proposition

---

**03** Portfolio performance

---

**04** Outlook

---

Appendices

---

# 01 FY17 Highlights



WestTrac Newcastle

## Highlights – Active management securing income and creating value

**23.6%**

**NTA growth**

Leasing ahead of expectations – benefiting from high demand for quality assets

**3.4%**

**FFO growth**

Delivered 18.1 cps – top of guidance range

**7.6 year**

**WALE**

Leased 24,400 sqm – creating value and de-risking future periods

**30.8%**

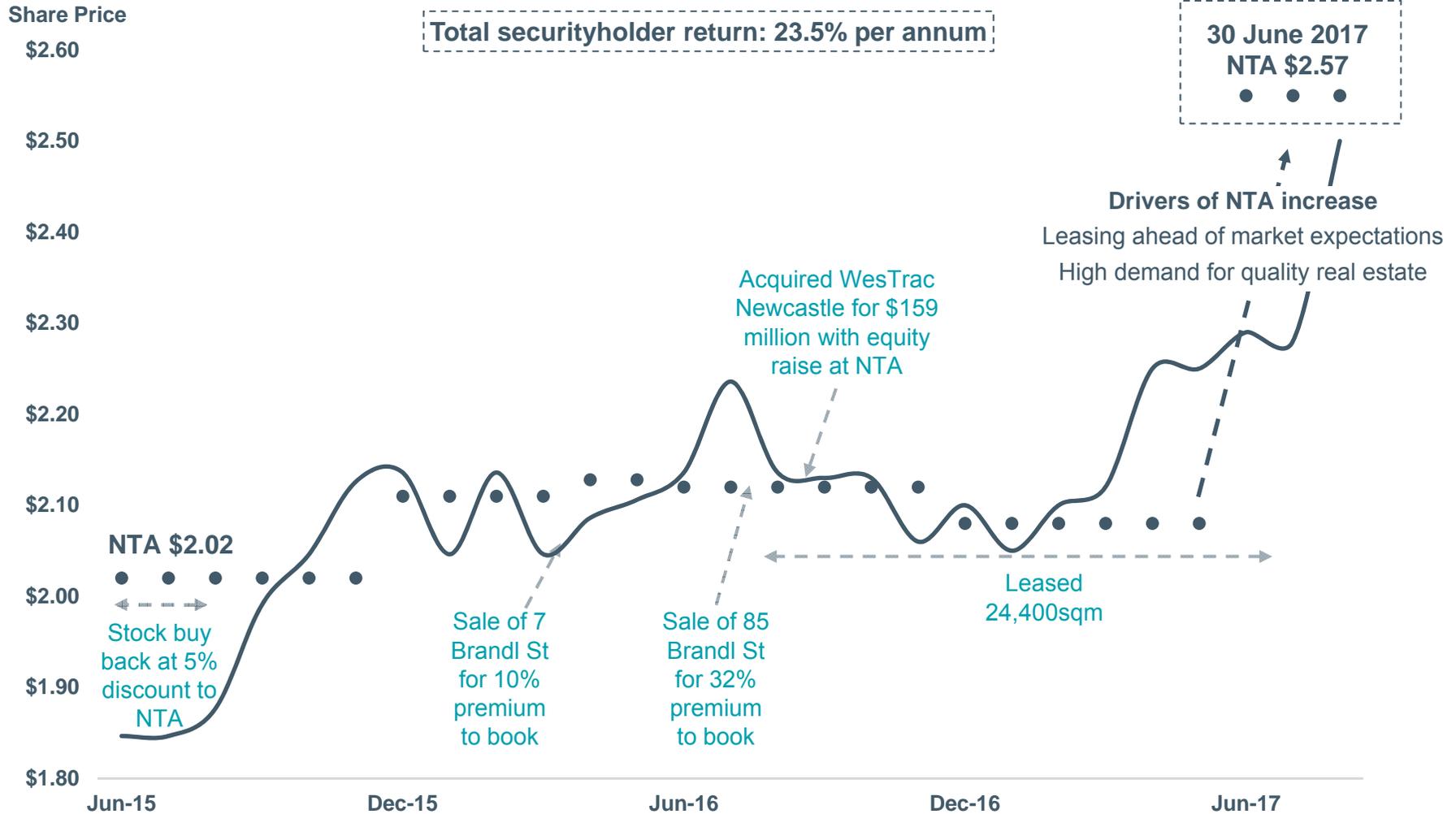
**Gearing**

Conservative balance sheet providing future flexibility and earnings growth potential

Solar PV – 12 Electronic St, Brisbane Technology Park

# Continued focus on securityholder value creation

Value creation through portfolio quality improvement and prudent capital management



## FY17: FFO guidance delivered at top end; material valuation uplifts

- Statutory net profit \$101.6 million, up \$70.3 million on pcp
- Income growth
  - Net Property Income up 31% to \$38.0 million
  - FFO increased - top of guidance range
  - Distribution increased 3.2%
- Strengthened balance sheet reflecting active approach to asset management
  - \$84.9 million of revaluations driving statutory net profit of \$101.6 million
  - NTA of \$419.4 million - up \$158.2 million in FY16
  - Gearing reduced to 30.8%

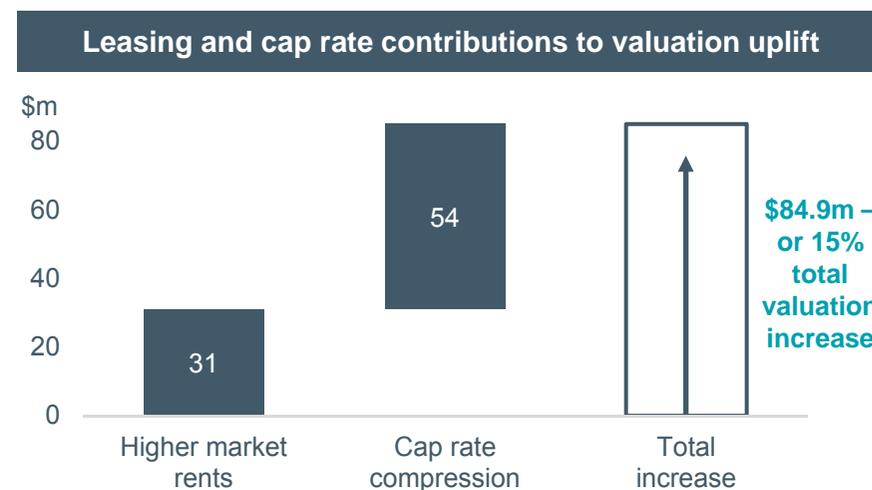
	FY17	FY16	Change
Statutory net profit (\$m)	\$101.6	\$31.3	▲ n/m
FFO (\$m)	\$27.9	\$21.5	▲ 29.6%
FFO (cents per security)	18.1	17.5	▲ 3.4%
Distribution declared (\$m)	\$26.1	\$19.1	▲ 36.9%
Distributions (cents per security)	16.0	15.5	▲ 3.2%
FFO payout ratio (%)	88.6%	88.7%	▼ 0.1%
Tax deferred component of distribution / non assessable income	41.4%	42.6%	▼ 1.2%

	Jun 2017	Dec 2016	Change
Gearing	30.8%	35.3%	▼ 4.5%
Net Tangible Assets per security	\$2.57	\$2.08	▲ 23.6%

## Balance sheet bolstered by valuation gains

- 100% portfolio independently revalued at 30 June 2017
  - Multiple transactions completed in June at cap rates lower than market expectations
  - Previous valuations had not captured impact of new transactional evidence
- Valuation outcomes driven by combination of market rent improvements and cap rate compression
- Excluding WesTrac, approximately 50% of the increase in values has been due to higher market rents
  - Leasing ahead of prior valuation assumptions providing additional uplift
- WesTrac Newcastle cap rate compressed to 6.25% - an uplift of \$25 million above purchase price

Property	Valuations (\$m)			
	Value	Change vs Dec 2016	Cap rate	Cap rate change
Rhodes	192.0	43.1	6.14%	(0.96%)
BTP	149.8	10.0	7.63%	(0.56%)
<b>Office subtotal</b>	<b>341.8</b>	<b>53.1</b>	<b>6.79%</b>	<b>(0.83%)</b>
WesTrac Newcastle	184.0	25.4	6.25%	(1.00%)
Industrial	112.2	6.4	7.14%	(0.23%)
<b>Industrial subtotal</b>	<b>296.2</b>	<b>31.8</b>	<b>6.59%</b>	<b>(0.71%)</b>
<b>Total / weighted average</b>	<b>638.0</b>	<b>84.9</b>	<b>6.70%</b>	<b>(0.77%)</b>



# Balance sheet de-risked after recent refinancing

## Conservative balance sheet

- 30.8% gearing – the bottom of 30 – 40% target band
- Ability to mobilise quickly on acquisition opportunities – an attractive proposition for motivated vendors
- Buyback is an active consideration

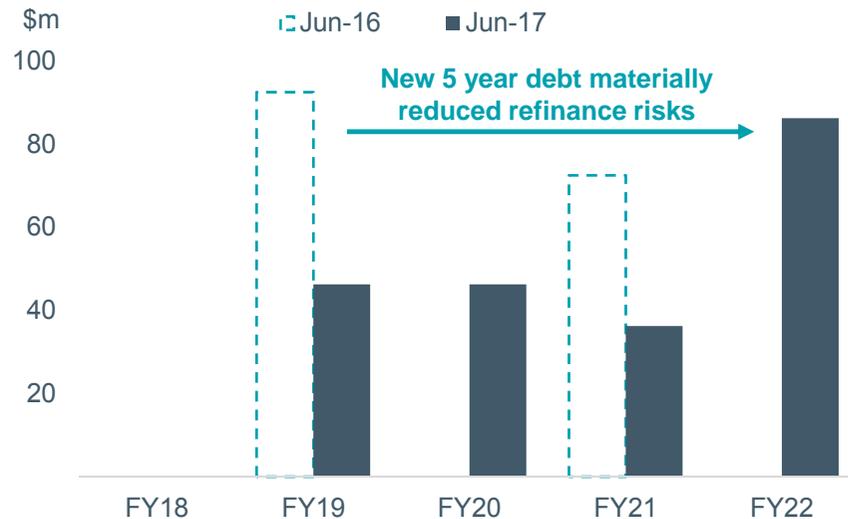
## High interest cover

- ICR 6.0x; weighted average all-in cost of debt 3.6%
- 56% of debt hedged for FY18 at average hedge rate of ~2.7%

## Increased weighted average debt maturity

- Debt facilities with two banks, no material expiry until FY22
- Nearest maturity ~\$46m in December 2018 to be addressed in coming period

## Staggered and extended debt maturity profile



# 02 Investment Proposition



Rhodes Building C, Rhodes NSW

# High quality and low risk portfolio

## Invested in quality and affordable workspaces

- \$638 million invested across 21 assets with an average weighted average lease expiry of 7.6 years
- Strategy to grow through investing in office and industrial assets that
  - Provide businesses with attractively priced and well located workspaces
  - Proactive approach to innovation and initiatives that deliver improved tenant satisfaction and retention
  - Produce sustainable income and capital growth returns

## Organic growth generating sustainable income

- Average 3% annual escalations underpin organic growth
- Increases in occupancy provide potential near-term income upside
- Security holders benefit from quarterly income distributions

## Strong balance sheet and access to capital

- Target leverage band 30 – 40%, well below covenant of 55%
- Significant equity support from wide investor base
- Included in the S&P/ASX 300 index

### AT A GLANCE

<b>Total assets</b>	<b>\$638m</b>
<b>Market capitalisation<sup>1</sup></b>	<b>\$408m</b>
<b>Index inclusion</b>	<b>S&amp;P / ASX 300</b>
<b>Distribution yield<sup>1</sup></b>	<b>6.6%</b>
<b>Gearing</b>	<b>30.8%</b>
<b>WALE</b>	<b>7.6</b>
<b>Occupancy</b>	<b>95%</b>

1. As at 22 August 2017 \$2.50 and based on FY18 guidance of 16.5 cents

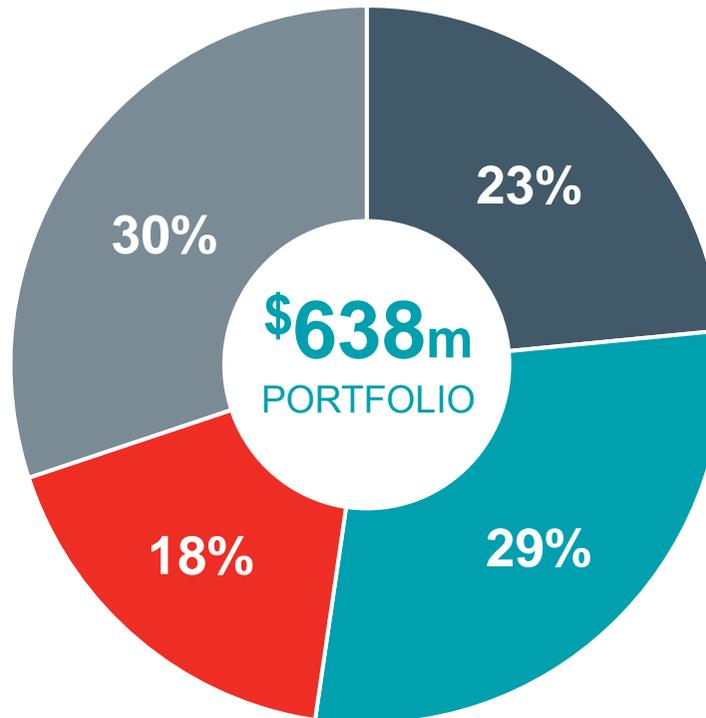
# Diversified portfolio



**Rhodes Corporate Park**  
Inner west Sydney,  
~\$192 million invested  
2 buildings; 4.4 year WALE



**Industrial Melbourne and Adelaide**  
Key industrial precincts  
~\$112 million invested  
6 buildings; 5.5 year WALE



**Brisbane Technology Park**  
15 minutes south of CBD  
~\$150 million invested  
12 buildings; 3.0 year WALE



**WesTrac Newcastle**  
Located adjacent to  
M1 motorway  
~\$184 million invested  
1 building; 17.2 year WALE

# APN Property Group – aligned and experienced manager

---

## Strong investor alignment

- APN is strongly aligned to delivering investor returns – owning a \$60 million co-investment stake in IDR
- Management fees are 55bps of Gross Asset Value – there is no leakage for performance or transactional fees

## Focused and dedicated management team

- Dedicated Fund Manager and management team, including on-the-ground resources
- Leveraging 15 average years of experience in real estate

## Governance overseen by majority independent Board

- Majority independent Board, ensuring robust governance framework
- 30 years average experience and Director roles on Boards including Sims Metal, MetLife, QV Equities, Folkestone, and the Chairman was a member of the Takeovers Panel for nine years

## Manager with long track record and deep relationships across capital and investment markets

- Relationships generate leasing, investment opportunities and access to multiple capital sources
- Founded in 1996 and grown to \$2.5 billion under management – including direct and listed real estate mandates

APN | AREIT Fund

APN | Asian REIT Fund

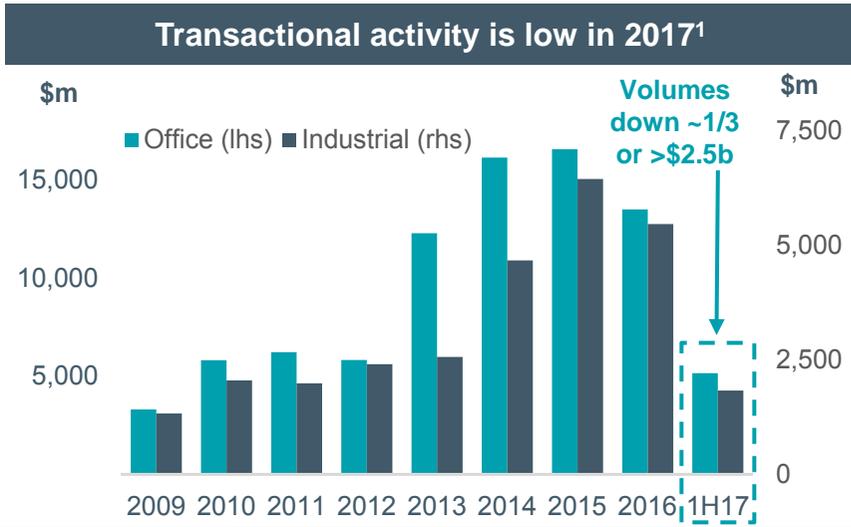
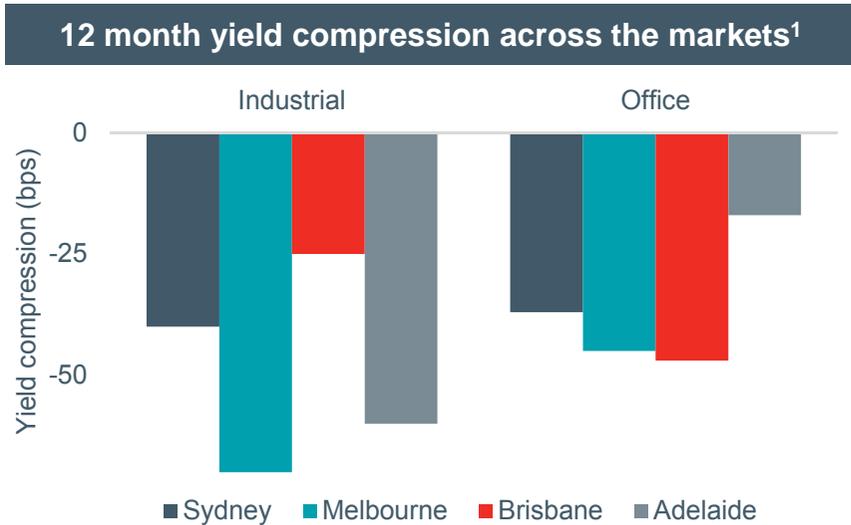
APN | Property Plus Portfolio

APN | Regional Property Fund



# Positioned for further growth in strong investment market

- Industria’s strategy is to own quality real estate that generates sustainable income returns through the cycle
- This strategy has positioned Industria to benefit strongly from yield compression – which has been significant over the last 12 months
- Strongest sales are for long WALE assets
  - Coca Cola Amatil facility (south west Brisbane) – 20 year lease, 5.15% yield
  - 105 Phillip St, Parramatta – 12 year lease, 5.3% yield
- The demand for assets has not abated – and the lack of stock has intensified the bid for sought-after real estate
  - Global investors are active with targeted allocations to real estate lifting significantly
  - Industrial mandates alone exceed \$18 billion – the equivalent of the last 3 years of investment sales



1. CBRE Research, APN Property Group

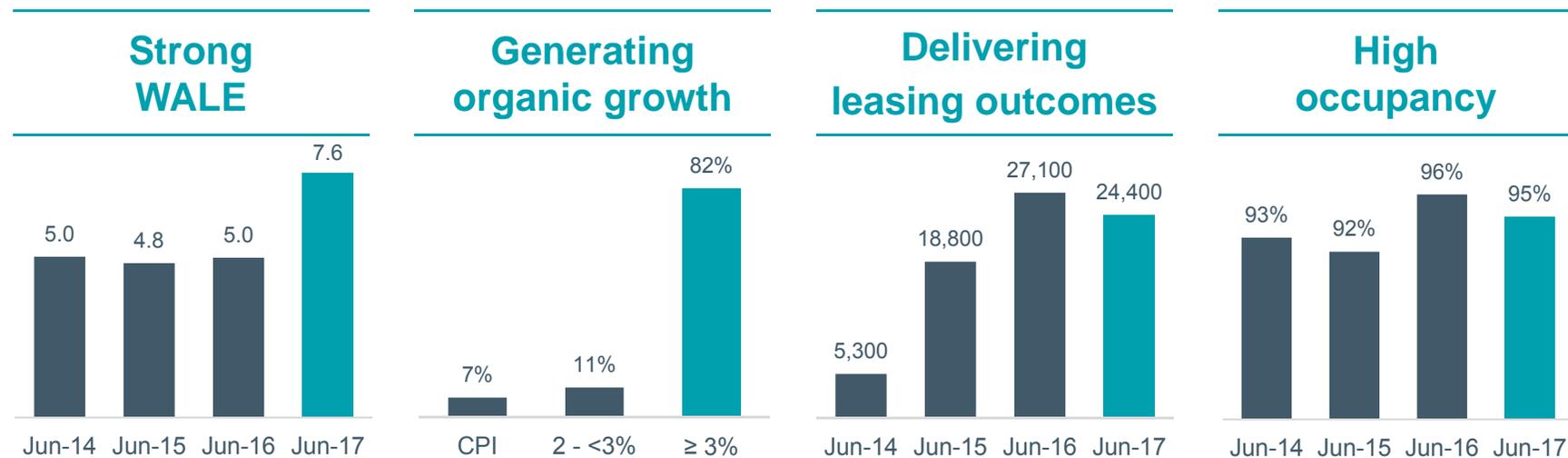
# 03 Portfolio performance



StarTrack Express, 140 Sharps Rd, Tullamarine

## Actively managing the real estate

- High occupancy has been maintained – 95% at 30 June 2017
- Proven leasing capability – with over 40% of initial Industria REIT portfolio being re-leased in 3 years
  - 16,400 sqm of industrial assets
  - 8,000 sqm of office assets
- The portfolio is underpinned by organic growth – with 82% generating annual growth of 3% or higher
- Leasing and portfolio management has created a sector-leading weighted average lease expiry of 7.6 years



# Rhodes – strong leasing progress

- Three key leasing deals struck bringing total occupancy from 80% to 97%<sup>1</sup>, underpinning extended expiry profile
  - Building A – 4.2 years
  - Building C – 4.7 years
- Leasing deals contributed to significant component of ~\$43 million valuation uplift
- Terms agreed on ground floor (Rhodes Building C)
- Strategy of targeting small users is working
  - 5 small suites built to meet demand
  - First suite leased within 6 weeks of completion, strong interest on remainder



Building C, Rhodes

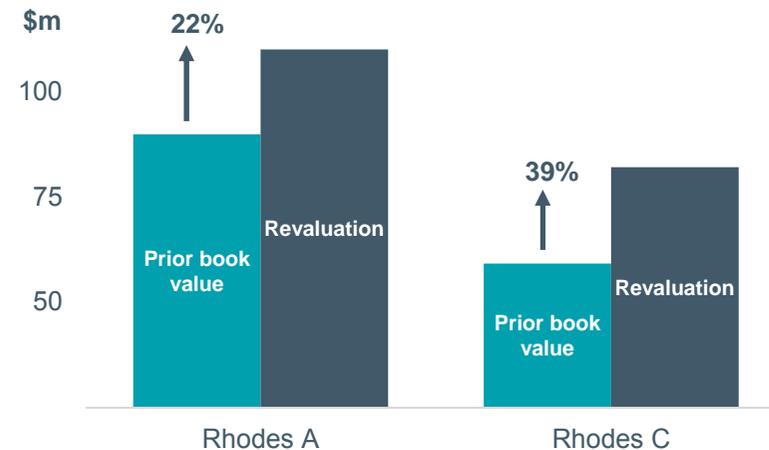


Plug'n'play fitted out suites at Building C, Rhodes

Leasing deals	Total area (sqm)
DHL	1,860
Link Market Services	1,600
Ground Floor – Rhodes C (heads of terms)	780
Suite 4 – Rhodes C (heads of terms)	195

Limited vacancy remaining	Total area (sqm)
4 new small suites (range 100 – 250 sqm)	680

## Leasing and cap rate compression driving valuations



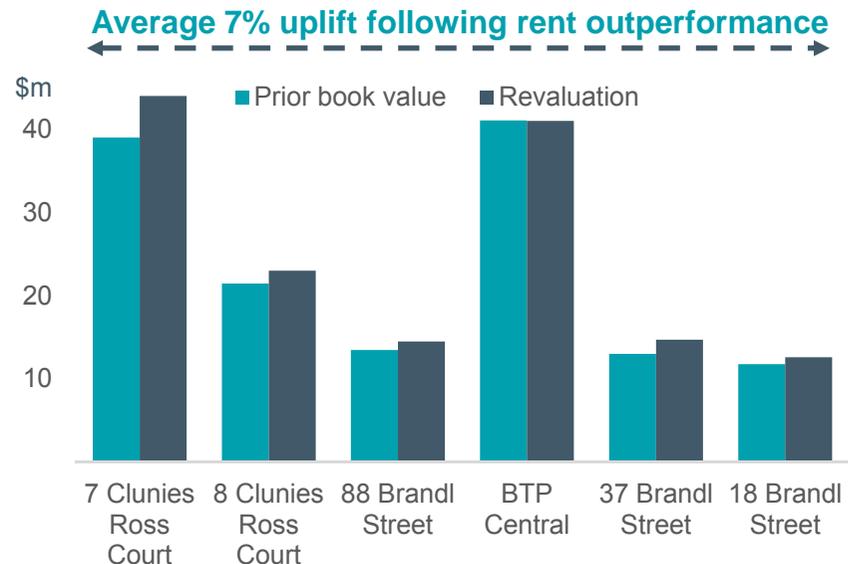
1. Includes heads of terms

## BTP – another active year of leasing

- BTP is one of Brisbane’s leading suburban business parks – and Industria has a dominant position with ~1/3 of the market
- Most tenants are relatively small – requiring high levels of asset management focus to generate outperformance
  - Leased ~4,500 sqm of vacancy this period – with deals ranging from 22 to 1,740 sqm
  - Engaged with all tenants with expiries in the next 24 months
  - Increased asset management resourcing – adding a locally based asset manager to enhance performance
- Seeking to leverage wide planning remit to deliver alternative uses that create new amenity and enhance value
  - Childcare
  - Health related enterprises
  - Improving retail mix

Key near-term expiries			
Building	Tenant	Area (sqm)	Expiry
37 Brandl St	Assa Abloy	1,229	Jan-18
18 Brandl St	Qld Motorways	1,065	Jan-18
Various	<500sqm tenants	~1,900	

### Leasing and cap rate compression driving valuations



## BTP – new initiatives driving tenant satisfaction

- Focused on delivering initiatives that add value to our tenants and create a point of difference that cannot be easily replicated
- 1 megawatt solar installation will generate ~40% of building energy
  - \$1.6 million investment will benefit security holders through 15% yield on cost and tenants through lower energy charges
- As the largest owner at BTP, Industria has significantly more car parking than competing owners
  - Flexible car parking exclusive to Industria tenants has been introduced
  - Removes ongoing source of frustration for tenants and their guests
- Initiatives have been well received and will ensure Industria's assets outperform over the long term



12 Electronics St – 100 Kilowatt installation being completed



Unlocking flexible car parking, exclusive for Industria tenants

# WesTrac Newcastle – world leading infrastructure asset

- Leased to WesTrac until 2034 with annual 3% fixed rental uplifts
- Property completed in 2012 – and is regarded as best-in-class by Caterpillar dealers globally
  - No expense spared in development – extremely high quality with facilities catering for all aspects of WesTrac business although focused on maintenance
  - Major competitive advantage is capability to rebuild engines guaranteed by Caterpillar factory warranty
  - Distributes over 1 million parts annually from 24 hour distribution centre
  - Designed for a 50 year life
- WesTrac is a top 5 global dealer of Caterpillar Inc equipment
  - Average 3-year operating cash flow ~\$165m
  - Partnership with Caterpillar extends back to 1929

**Sept 2016 acquisition: \$158.6m (7.25%)**  
**June 2017 revaluation: \$184.0m (6.25%)**



Parts and Distribution Warehouse



Component Rebuild Centre

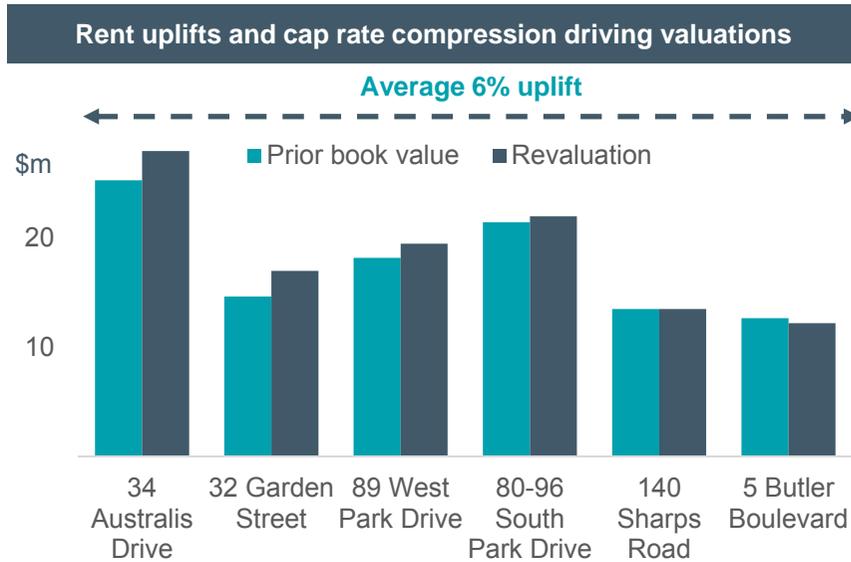
# Industrial portfolio – well positioned and capturing value

- Limited lease expiries – ~4,400 sqm across 140,000 sqm portfolio in the next 24 months
- Active year at Adelaide Airport with ~6,400 sqm leased
  - 3 expiries totalling 4,400 sqm remaining in FY18
  - Quality competing space is limited
- Active engagement with our tenants – regardless of lease expiry – to seek out opportunities to add value to their business – e.g. solar energy



140 Sharps Road, Tullamarine

Key leases completed	
Property	Area (sqm)
Dandenong South	10,004
Adelaide – Unit D	3,765
Adelaide – Unit E	1,306
Adelaide – Unit A	1,298



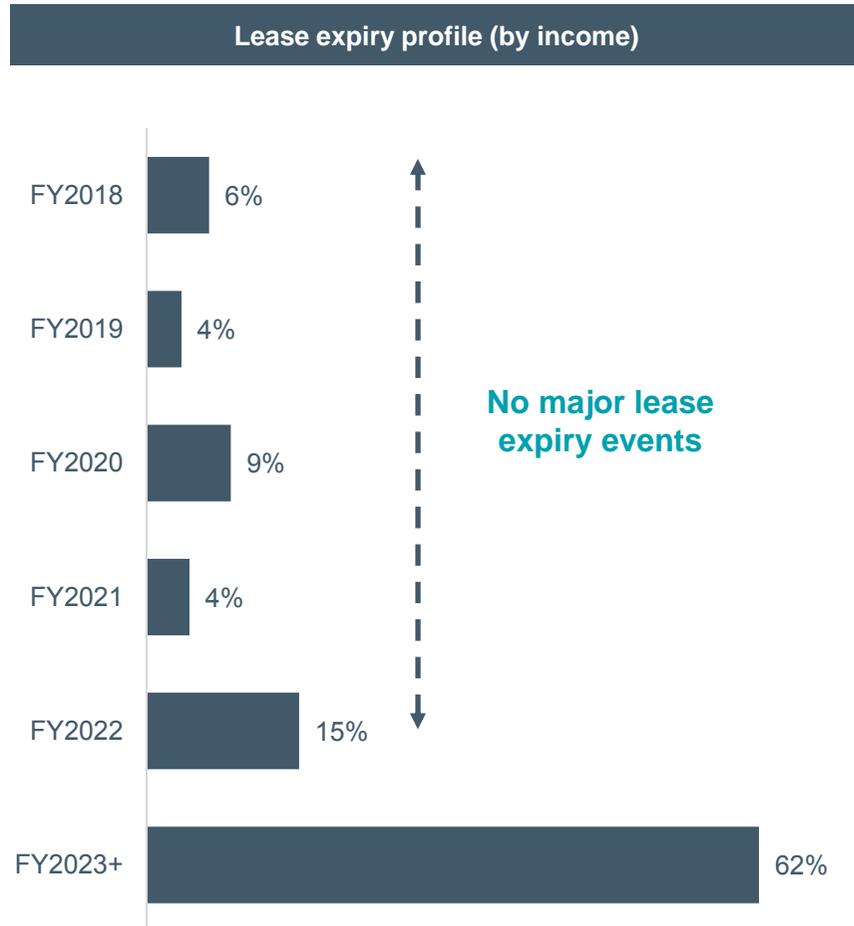
# 04 Outlook



# Outlook

## Sustainable returns underpinned by quality and affordable workspaces

- Industria is well positioned
  - Desirable and well leased portfolio underpinning value and growth
  - Low-risk balance sheet provides ability to be opportunistic and flexible – with potential buyback or acquisitions likely to generate immediate accretion to earnings
  - Management is aligned to generating long term returns
- FFO guidance of 18.4 – 18.6 cps – reflecting 2 to 3% growth on FY17
  - Sustainable growth, with opportunity to upgrade through leasing outperformance
  - DPS guidance of 16.5 cps – 3.1% growth
  - Subject to current market conditions continuing and no unforeseen events



# Appendices



# Appendix A

## Property portfolio

## Portfolio details as at 30 June 2017

Property	State	Ownership	Sector	Book Value (\$m)	Movement on prior book (\$m)	Valuation change	Cap Rate	NLA (sqm)	Occupancy (by area)	WALE (by area)
Building A, Rhodes	NSW	100%	Office	110.0	20.2	22%	6.25%	14,641	100%	4.2
Building C, Rhodes	NSW	100%	Office	82.0	22.9	39%	6.00%	10,597	84% <sup>1</sup>	4.7
18 Brandl Street, BTP	QLD	100%	Office	12.6	0.8	7%	8.00%	4,174	76%	2.0
37 Brandl Street, BTP	QLD	100%	Office	14.7	1.7	13%	7.38%	3,329	86%	1.9
7 Clunies Ross Court and 17–19 McKechnie Drive, BTP	QLD	100%	Office	44.0	5.0	13%	7.50%	8,877	100%	6.6
8 Clunies Ross Court and 9 McKechnie Drive, BTP	QLD	100%	Office	23.0	1.5	7%	8.00%	5,704	45%	1.2
88 Brandl Street, BTP	QLD	100%	Office	14.5	1.0	8%	7.75%	3,006	50%	1.3
BTP Central, BTP	QLD	100%	Office	41.0	(0.1)	(0%)	7.50%	7,782	76%	2.0
1-3 WesTrac Drive, Newcastle	NSW	100%	Industrial	184.0	25.4	16%	6.25%	45,474	100%	17.2
140 Sharps Rd, Tullamarine	VIC	100%	Industrial	13.5	-	-	8.25%	10,508	100%	5.3
32-40 Garden Street, Kilsyth	VIC	100%	Industrial	17.0	2.4	16%	7.00%	10,647	100%	7.5
34 Australis Drive, Derrimut	VIC	100%	Industrial	28.0	2.7	11%	6.50%	25,243	100%	5.4
80-96 South Park Drive, Dandenong South	VIC	100%	Industrial	22.0	0.6	3%	7.00%	20,245	100%	6.6
89 West Park Drive, Derrimut	VIC	100%	Industrial	19.5	1.3	7%	6.50%	17,024	100%	5.2
5 Butler Boulevard, Adelaide Airport	SA	100%	Industrial	12.2	(0.5)	(4%)	8.84%	12,335	89%	2.8
<b>Portfolio</b>				<b>638.0</b>	<b>84.9</b>	<b>15%</b>	<b>6.70%</b>	<b>199,586</b>	<b>95%</b>	<b>7.6</b>

1. Increases to 94% with heads of terms

## Tenancy mix

Tenant	% portfolio income
WesTrac	25%
Link Market Services	12%
Interactive Pty Ltd	4%
Mitre 10	4%
AAE Retail	4%
Frasers Property	4%
QLD Health DHP	3%
RFS (Alcatel-Lucent)	3%
NAB	3%
Dempsey Group	3%
<b>Top 10 Tenants</b>	<b>65%</b>
Other	35%
<b>Total</b>	<b>100%</b>

# Appendix B

## Financial information

# Balance Sheet

	30 June 2017	30 June 2016
	\$'000s	\$'000s
<b>Assets</b>		
Cash and cash equivalents	435	1,607
Trade and other receivables	1,112	2,165
Other assets	389	355
Assets classified as held for sale	-	31,724
<b>Total current assets</b>	<b>1,936</b>	<b>35,851</b>
Investment properties	638,000	386,139
<b>Total non-current assets</b>	<b>638,000</b>	<b>386,139</b>
<b>Assets</b>	<b>639,936</b>	<b>421,990</b>
<b>Liabilities</b>		
Payables	(3,562)	(5,111)
Derivative financial instruments	(916)	(1,042)
Distributions payable	(13,049)	(9,842)
<b>Total current liabilities</b>	<b>(17,527)</b>	<b>(15,995)</b>
Payables	(257)	(240)
Derivative financial instruments	(1,163)	(3,266)
Borrowings <sup>1</sup>	(196,332)	(139,263)
Deferred tax liability	(5,297)	(2,069)
<b>Total non-current liabilities</b>	<b>(203,049)</b>	<b>(144,838)</b>
<b>Total liabilities</b>	<b>(220,576)</b>	<b>(160,833)</b>
<b>Net assets</b>	<b>419,360</b>	<b>261,157</b>
Number of Securities (millions)	163.1	123.0
NTA per Security (\$)	2.57	2.12

1. Borrowings are net of capitalised debt establishment costs of \$675,000 (Jun-16: \$847,000)

## Profit and Loss Statement

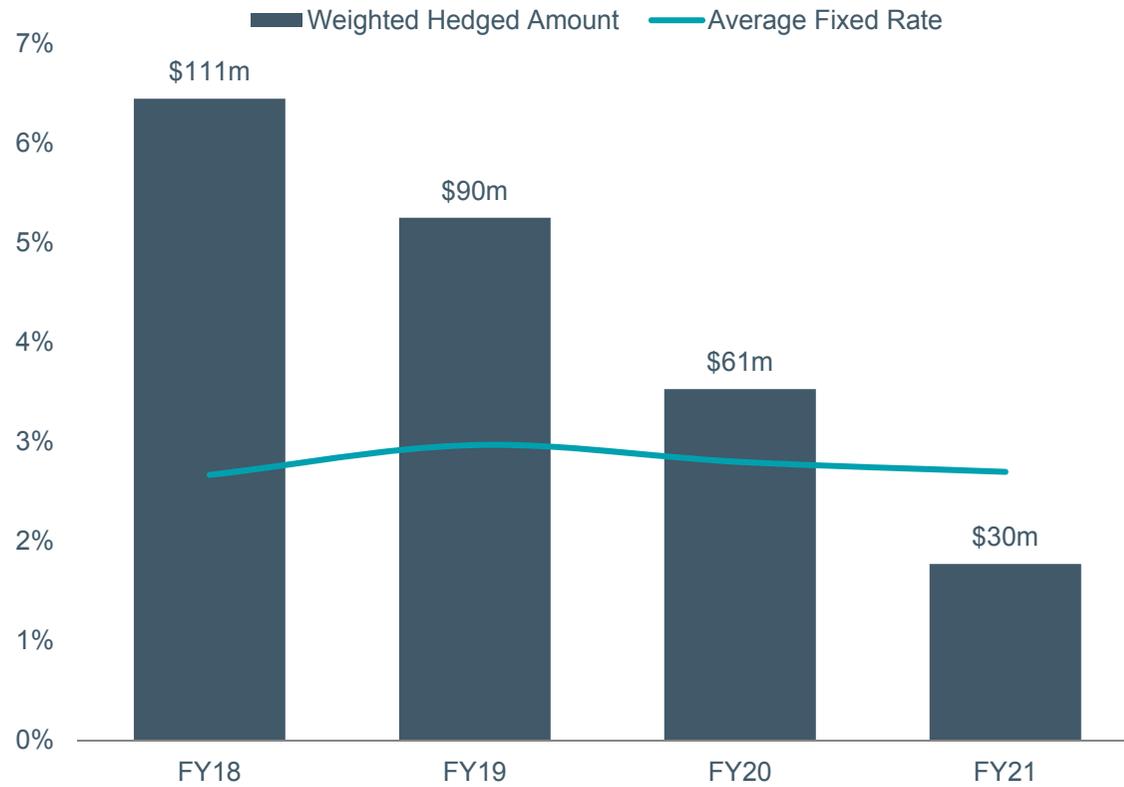
	FY2017	FY2016
	\$'000	\$'000
<b>Income</b>		
Net rental income (including straight lining adjustments)	48,483	37,956
Other income	-	41
<b>Total revenue</b>	<b>48,483</b>	<b>37,997</b>
<b>Expenses</b>	<b>-</b>	<b>-</b>
Property costs	(10,445)	(8,841)
Trust management fees	(2,875)	(2,318)
Other expenses	(872)	(603)
<b>Total expenses</b>	<b>(14,192)</b>	<b>(11,762)</b>
<b>Net operating income (EBIT)</b>	<b>34,291</b>	<b>26,235</b>
Net gain in fair value adjustments on investment properties	75,194	12,029
Unrealised loss on mark to market of interest rate swaps	2,229	(1,224)
Net interest expense	(6,737)	(6,013)
<b>Net income before tax</b>	<b>104,977</b>	<b>31,027</b>
Income tax – current	-	0
Income tax – deferred	(3,334)	234
<b>Net profit after tax</b>	<b>101,643</b>	<b>31,261</b>

## Distribution reconciliation

	FY2017	FY2016
	\$'000	\$'000
<b>Net profit after tax</b>	101,643	31,261
Adjusted for:	-	-
Reverse straight lining adjustments included in net rental income	(3,221)	(1,050)
Deferred tax	3,334	(234)
Add back amortised borrowing costs	324	273
Reverse fair value gain on investment properties	(75,371)	(12,026)
Reverse loss/gain on sale of investment property	177	(3)
Add back amortised leasing costs and rent free adjustments	3,212	2,054
Reverse fair value loss on derivatives	(2,229)	1,224
<b>FFO</b>	<b>27,870</b>	<b>21,499</b>
<b>Distribution</b>	<b>26,098</b>	<b>19,068</b>
Weighted securities on issue (thousands)	154,319.8	123,092.8
Payout ratio (Distribution / FFO)	88.6%	88.7%
Distribution (cents per Security)	16.0	15.5
FFO (cents per Security)	18.1	17.5

1. Includes one-off lease incentive amortisation expense of \$0.4 million arising from the early exercise of a tenant lease break option (NAB) and re-lease of this space to DHL at Rhodes Corporate Park Building C. This amount is one-off in nature, reducing comprehensive income and therefore increasing the amortised leasing incentives and costs adjustment when calculating FFO for the period.

# Interest rate hedging profile



# Disclaimer

---

This presentation has been prepared by APN Funds Management Limited (ACN 080 647 479, AFSL No. 237500) (the "Responsible Entity") as the responsible entity and issuer of the financial products in respect of Industria REIT (ARSN 125 862 875) ("IDR") and by Industria Company No 1 Limited (ACN 010 497 957) ("Industria Company"). Information contained in this presentation is current as at 23 August 2017. The information provided in this presentation does not constitute financial product advice and does not purport to contain all relevant information necessary for making an investment decision. It is provided on the basis that the recipient will be responsible for making their own assessment of financial needs and will seek further independent advice about investments as is considered appropriate. This presentation does not constitute an offer, invitation, solicitation or recommendation with respect to the subscription for, purchase or sale of any security, nor does it form the basis of any contract or commitment.

Except as required by law, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions, or as to the reasonableness of any assumption, contained in this presentation. By reading this presentation and to the fullest extent permitted by law, the reader releases the Responsible Entity, Industria Company and their respective affiliates, and any of their respective directors, officers, employees, representatives or advisers from any liability including, without limitation, in respect of any direct or indirect or consequential loss, damage, cost, expense, outgoing, interest, loss of profits or loss of any kind ("Losses") arising in relation to any recipient or its representatives or advisers acting on or relying on anything contained in or omitted from this presentation or any other written or oral opinions, whether the Losses arise in connection with any negligence, default or lack of care on the part of Responsible Entity or Industria Company or any other cause.

The forward-looking statements, opinions and estimates provided in this presentation are based on estimates and assumptions related to future business, economic, market, political, social and other conditions that, while considered reasonable by the Responsible Entity and Industria Company, are inherently subject to significant uncertainties and contingencies. Many known and unknown factors could cause actual events or results to differ materially from estimated or anticipated events or results reflected in such forward-looking statements. Such factors include, but are not limited to: operating and development risks, economic risks and a number of other risks and also include unanticipated and unusual events, many of which are beyond the Responsible Entity and Industria Company's ability to control or predict. Past performance is not necessarily an indication of future performance. The forward-looking statements only speak as at the date of this presentation and, other than as required by law, the Responsible Entity and Industria Company disclaim any duty to update forward looking statements to reflect new developments. To the fullest extent permitted by law, the Responsible Entity and Industria Company make no representation and give no assurance, guarantee or warranty, express or implied, as to, and take no responsibility and assume no liability for, the authenticity, validity, accuracy, suitability or completeness of, or any errors in or omission, from any information, statement or opinion contained in this presentation.

The Responsible Entity, Industria Company or persons associated with them, may have an interest in the securities mentioned in this presentation, and may earn fees as a result of transactions described in this presentation or transactions in securities in IDR.

# Contact

---

## Alex Abell

Fund Manager

Ph: (03) 8656 1070

✉ [aabell@industriareit.com.au](mailto:aabell@industriareit.com.au)

## Industria REIT

Level 30, 101 Collins Street,  
Melbourne, Vic 3000

[industriareit.com.au](http://industriareit.com.au)