



# APN INDUSTRIA REIT 31 DECEMBER 2018 RESULTS

19 FEBRUARY 2019

[www.apngroup.com.au](http://www.apngroup.com.au)  
ASX Code: ADI (formerly IDR)

**APN** | Industria REIT

# Agenda

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**01** Highlights and Outcomes

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**02** Investment Proposition

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**03** Portfolio Performance

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**04** Outlook

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Appendices

# 01 HIGHLIGHTS AND OUTCOMES



# Highlights and Outcomes



3.3% FFO growth;  
9.4 cents per  
security



NTA \$2.71 – up 1c;  
weighted average  
cap rate 6.5%



~6,600 square  
metres of leasing –  
increasing  
occupancy to 96%



Affordable rents to a  
diverse pool of  
tenants driving  
growth of 2 – 3% per  
annum



## 31 December 2018 financials

- Statutory net profit \$14.6 million – contributions from contracted leases with fixed growth, boosted by income from new acquisitions and valuation uplifts
- FFO up from \$14.8 million to \$15.3 million:
  - Up 0.3 cents per security to 9.4 cents
- FFO guidance re-affirmed at 3 – 4% growth for FY19, 19.05 – 19.25 cents per security
- 8.5 cent per security distribution paid, reflecting a yield of ~6% on prevailing share price
- Net Property Income up ~6% to \$19.8 million:
  - Fixed rental uplifts across the portfolio
  - ~\$0.8 million contribution from new acquisitions
- Gearing remains conservative at 33.3% - near the bottom end of the 30 – 40% target gearing band
- NTA up \$0.7 million, 1 cent per security:
  - Rhodes properties revalued – up \$3.1 million
  - \$1.4 million of stamp duty from acquisitions impacted NTA growth

	1H19	1H18	Change
Statutory net profit (\$m)	\$14.6	\$13.8	▲ 5.8%
FFO (\$m)	\$15.3	\$14.8	▲ 3.4%
FFO (cents per security)	9.4	9.1	▲ 3.3%
Distribution declared (\$m)	\$13.8	\$13.4	▲ 3.0%
Distributions (cents per security)	8.5	8.2	▲ 3.7%
FFO payout ratio (%)	90.5%	90.5%	- 0.0%
Tax deferred component of distribution / non assessable income	44.1%	52.6%	▼ 16.2%

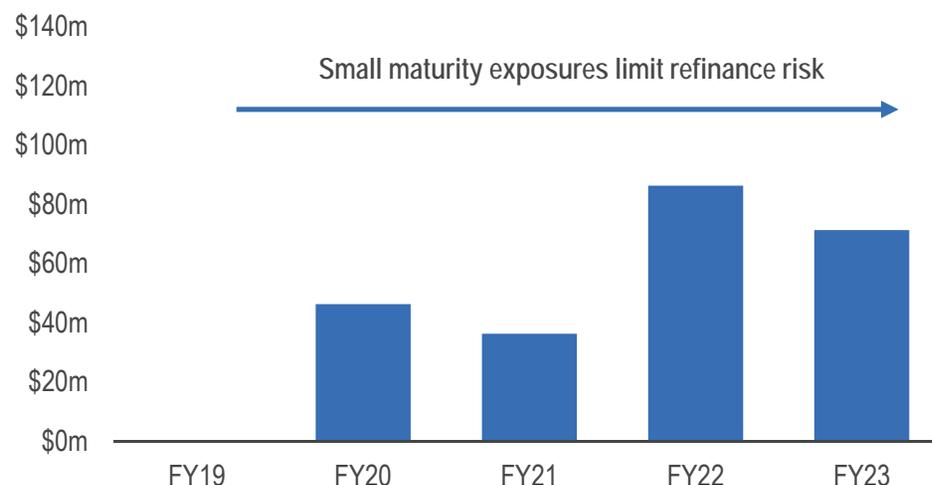
	Dec 2018	June 2018	Change
Gearing	33.3%	31.0%	▲ 2.3%
Net Tangible Assets per security	\$2.71	\$2.70	▲ 0.4%

# Strong balance sheet, consistently outperforming peers

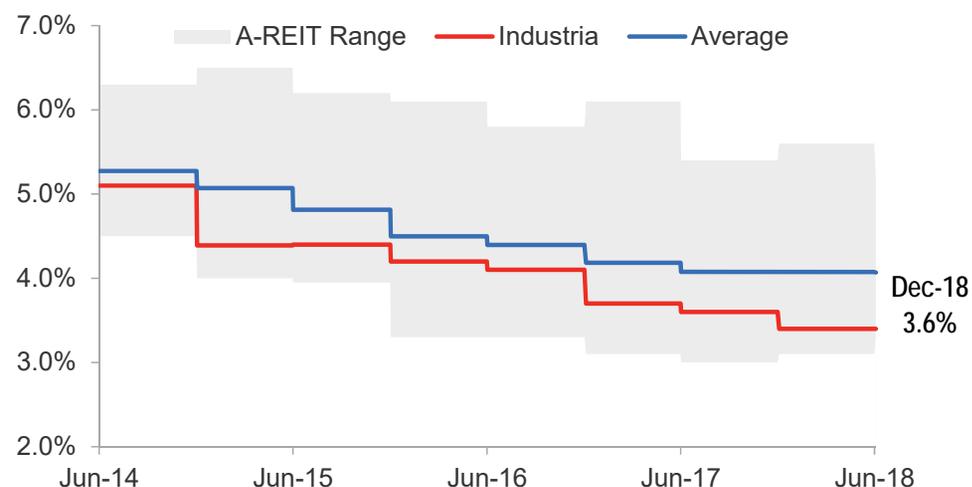
- Maturities broken into small annual expiries, reducing refinancing risks:
  - Nearest debt maturity ~\$46 million in Sept 2019
  - Weighted average debt maturity 2.8 years
- Bi-lateral Facility Agreements in place that include the ability to introduce new lenders on pre-agreed terms
- Weighted average interest rate of 3.6% and 4.9x interest cover
- Consistently outperforming the A-REIT average cost of debt:
  - Credit viewed positively by lenders due to portfolio quality, passive earnings, and proactive and experienced management team
- Weighted average hedge rate of 2.6% with ~50% of debt hedged:
  - Appropriate protection whilst maintaining the benefit of often lower floating rates
  - Less volatility, which is often influenced by financial markets
- No hedges have been broken to achieve these outcomes

1. Source: Company information and IRESS

## Debt maturity profile – limited refinance risk



## APN Industria REIT cost of debt compared to A-REIT sector<sup>1</sup>



# 02 INVESTMENT PROPOSITION



# The APN Industria REIT opportunity



## Strategy to grow through investing in office and industrial assets

- Providing businesses with attractively priced and well located workspaces
- Proactively approaching innovation to deliver improved tenant satisfaction and retention
- Producing sustainable income and capital growth returns



## The opportunity

- Benefit from a growing rent profile from low-risk portfolio – no potential volatility from “active earnings” (e.g. funds management or development)
- Leveraging APN’s market knowledge and experience to enhance the product offering and drive occupancy
- Maximising synergies and minimising downtime by engaging with clients to execute initiatives including building efficiency works that reduce operational costs – such as solar power
- Benefit from supply constraints and significant infrastructure upgrades in close proximity to existing and future investments
- Utilise balance sheet strength and capital market support to grow through portfolio recycling initiatives and acquisitions

## At a glance

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**\$692**  
MILLION  
TOTAL ASSETS

**~\$475**  
MILLION MARKET  
CAPITALISATION

**S&P/ASX 300**  
INDEX  
MEMBER

**~6%**  
CASH DISTRIBUTION  
YIELD

**33.3%**  
GEARING

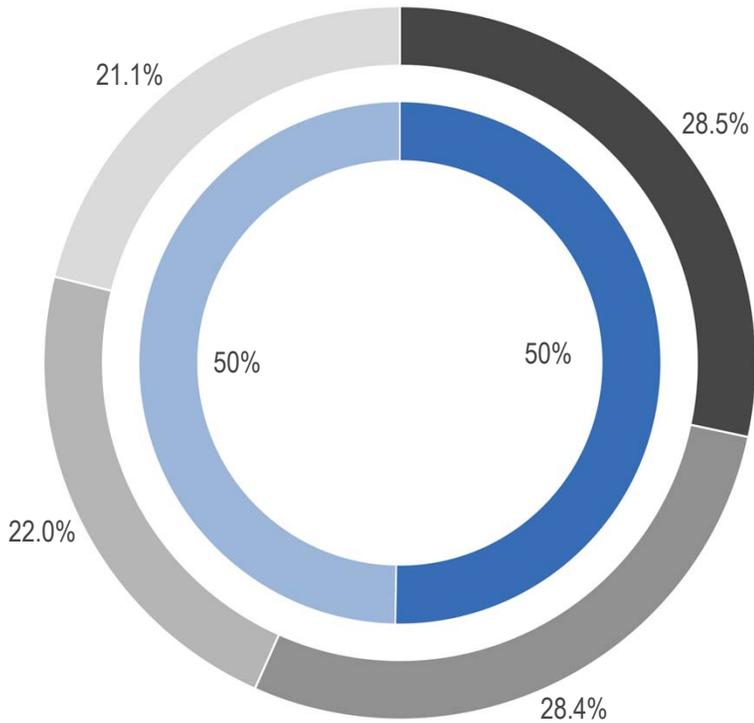
**6.4**  
YEAR WALE

**3%**  
AVG RENT REVIEWS

HIGH QUALITY ASSETS DELIVERING STRONG INCOME PROFILE AND ALIGNED MANAGEMENT WITH ~\$78 MILLION CO-INVESTED CONSERVATIVE BALANCE SHEET WITH CAPACITY TO GROW

Note: Yield and market capitalisation as at 18 February 2019

# Diversified portfolio in attractive sectors



## Locations

- Industrial - WesTrac
- Rhodes Corporate Park
- Brisbane Technology Park
- Industrial Melbourne & Adelaide

## Portfolio by type

- Office
- Industrial



### WesTrac Newcastle

Located adjacent to M1 motorway  
~\$197 million invested  
15.7 year WALE



### Industrial Melbourne and Adelaide

Key industrial precincts  
~\$146 million invested  
9 buildings; 4.4 year WALE



### Rhodes Corporate Park

Inner west Sydney,  
~\$197 million invested  
2 buildings; 3.3 year WALE



### Brisbane Technology Park

15 minutes south of CBD  
~\$152 million invested  
12 buildings; 2.8 year WALE

# APN Property Group – aligned and experienced manager



## Strong investor alignment

- APN is strongly aligned to delivering investor returns – owning a ~\$78 million co-investment stake
- Simple and transparent sliding fee structure – no additional transactional or performance fees



## Focused and dedicated management team

- Dedicated Fund Manager and management team
- Leveraging 19 average years of experience in real estate



## Governance overseen by an Independent Board

- 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

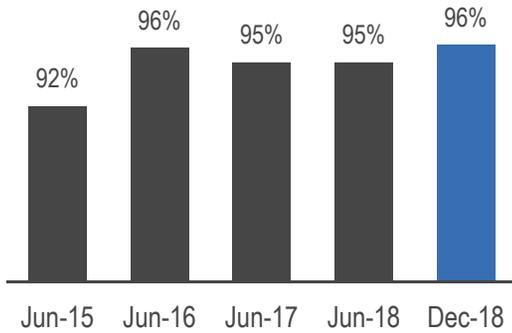
- Relationships generate leasing, investment opportunities and access to multiple capital sources
- Founded in 1996 and grown to \$2.8 billion under management – including direct and listed real estate mandates

# 03 PORTFOLIO PERFORMANCE

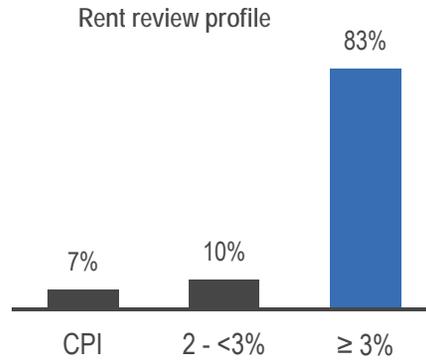


# Actively managing Industria's real estate

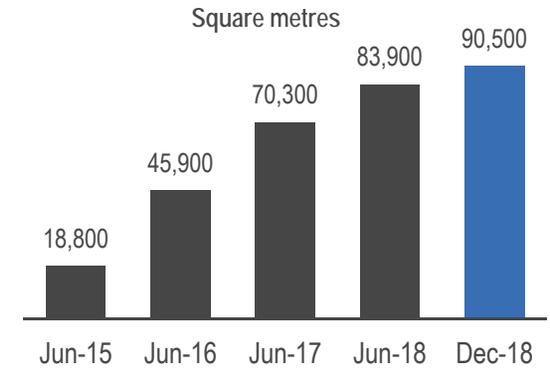
## High occupancy



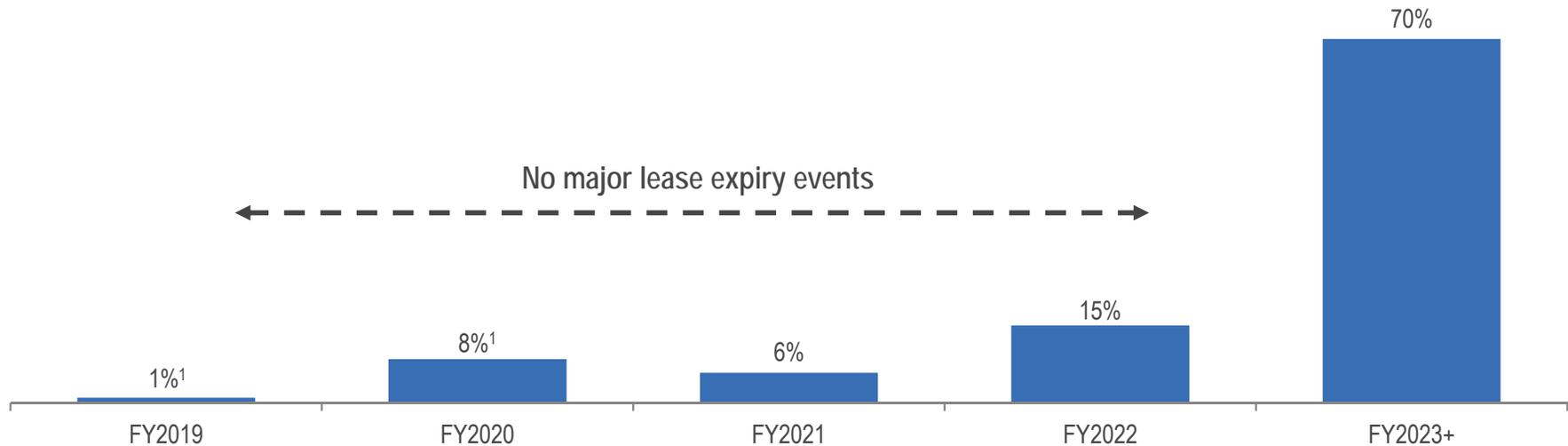
## Generating organic growth



## Cumulative leasing outcomes



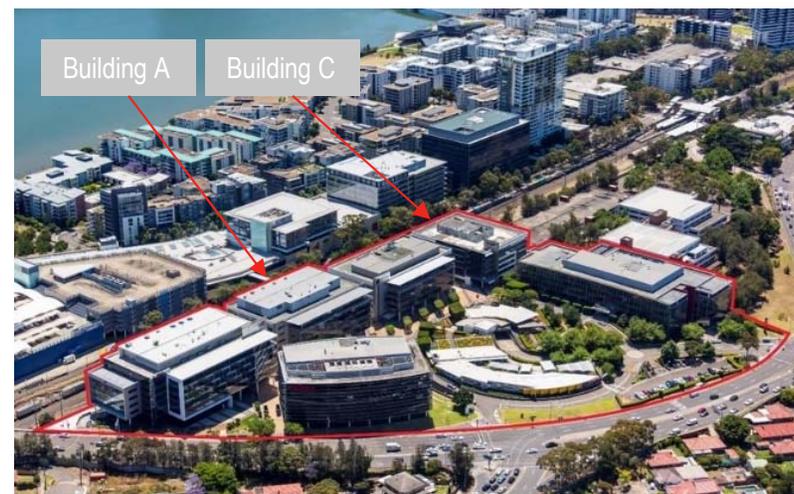
## Strong income visibility - expiry profile (by income)



1. Includes terms agreed

# Rhodes Corporate Park

- The business park continues to evolve – with new occupiers including KPMG and Super Retail Group attracted by:
  - Affordable gross rent profiles of \$500 - \$550 per square metre
  - Connectivity to public transport including rail within 200m
  - Easily accessible car parking, green spaces, and retail amenity
- Valuation growth (\$3.0 million) at Building C driven by higher market rents – following successful spec suite leasing strategy delivered in 2018
- Building A fully leased with 2.8 year weighted average lease expiry – conservative lease expiry assumptions applied



Rhodes Corporate Park – aerial view and green spaces

Independent Valuations			
Building	Book Value (\$m)	Valuation Gain (\$m)	Cap Rate (%)
Rhodes C	86.0	3.0	6.00%
Rhodes A	110.5	0.1	6.00%
Total / Weighted Average	196.5	3.1	6.00%

# Brisbane Technology Park

- High levels of leasing activity with 15 deals completed across ~3,000 sqm:
  - Leasing pipeline includes >10 small businesses
- Occupiers are attracted to our approach of adapting to their requirements to find solutions – we allow them to focus on running their business:
  - Eight leasing deals were with existing clients – mainly expansion to provide capacity for growth
  - >90% of deals were less than 500 square metres
  - Client focus and simplicity are our modus operandi
- New occupiers seeking opportunities to move into the precinct – which is a knowledge hub for healthcare, IT and engineering
- Carried at average cap rate of 7.6%
- Most significant business park outside Brisbane CBD and top 3 priority precinct – as identified by Brisbane City Council
- Location, affordable rent profile, and potential for increased density will underpin long term value creation for investors

Leasing deals	
Building	Area (sqm)
88 Brandl Street	880
8 Clunies Ross Court	740
7 Clunies Ross Court	680
18 Brandl Street	670



# BTP – highlights and projects

## 88 Brandl Street

- Increased occupancy from 66% - 90%
- Assisted incumbent and new tenants to expand and contract
- Upgrading building amenity – end of trip facility and lobby refurbishment progressing – improving occupancy prospects through the business cycle

## 9 McKechnie Drive

- Agreed terms with existing client to expand by 900 square metres and take 100% of the building - ~2,100 square metres
- Staged move into the building – will be fully operational by January 2020
- Legal documentation of lease yet to be completed

## 7 Clunies Ross Court

- Improved amenity with new café and Anytime Fitness opening – and trading ahead of expectations
- Opportunities to re-position to drive occupancy and rents

## OUR CLIENTS

Genuine innovators and leaders in their field



Leader in AWS consulting  
AFR Fast 100 list



Specialists in custom electronic design and system integration that has a client base including Boeing and Raytheon



Global leader in specialised dewatering technology for tailings management and land reclamation.  
Winner of Environmental Solutions category at Queensland Export Awards 2018



Develops software and hardware for trading on electronic markets

# BTP – driving value through innovation



**43%**  
energy met by  
solar PV



**\$1.0m**  
investment delivering  
15% return on cost<sup>1</sup>



Lowers volatility  
of energy costs for  
Industria's tenants



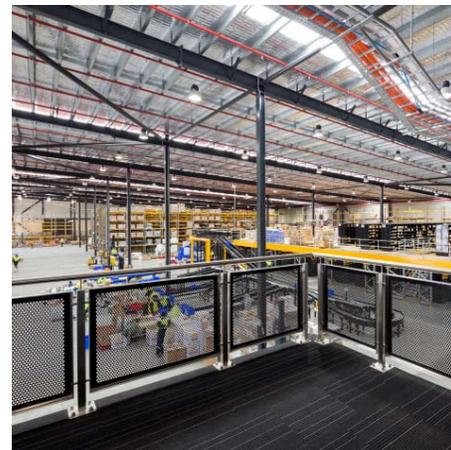
Equivalent of  
planting  
1,600 trees p.a.

ACTING SWIFTLY TO CAPITALISE ON OPPORTUNITIES TO ADD VALUE

<sup>1</sup> Additional ~220 Kilowatt installation to be completed in FY19

# WesTrac Newcastle – world leading real estate

- Leased to WesTrac until 2034 with annual 3% fixed rental uplifts
- WesTrac generated \$203 million of EBIT in FY18 – up 23% on pcp
- The facility is running near or at capacity, driven by record part and support volumes
- Property completed in 2012 – and is regarded as best-in-class by Caterpillar dealers globally:
  - Very high quality facility catering for all aspects of WesTrac business – although focused on maintenance, parts and support
  - Major competitive advantage is capability to entirely rebuild machines – saving clients >50% on new products
  - Distributes over 1 million parts annually from 24 hour distribution centre
- Strong underlying business with maintenance revenue providing counter-cyclical cash flow
- Long term partner of Caterpillar – relationship extends back to 1929



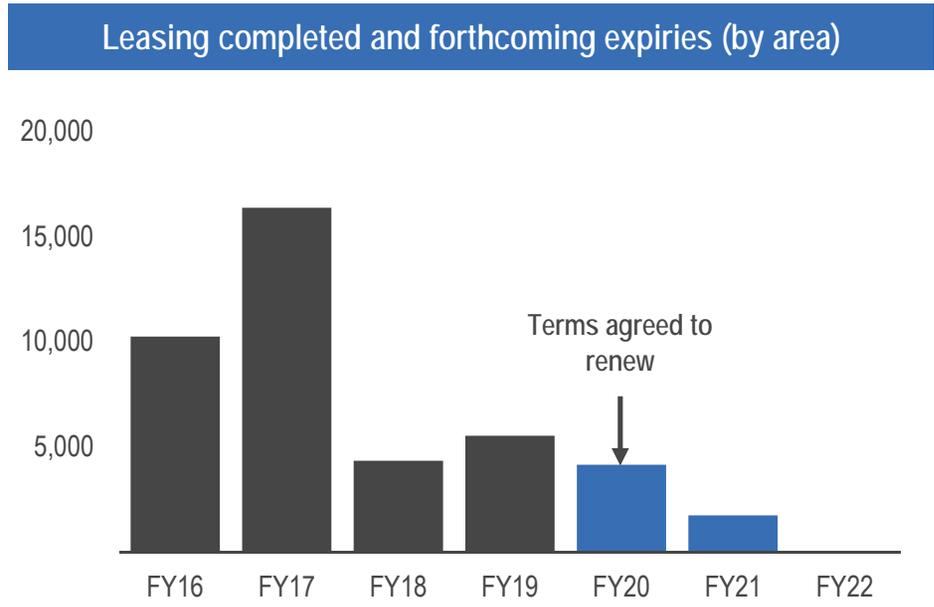
Parts and Distribution Warehouse



Component Rebuild Centre

# Continued discipline and active management across industrial assets

- Acquired two assets with an average WALE of 5.7 years and average yield of 7.1%:
  - Established collaborative relationships with both tenants to seek-out efficiencies and add long term value
- Activity continued at Butler Boulevard, Adelaide Airport:
  - Leased final vacant unit (~1,200 square metres)
  - Agreed terms to renew two units expiring in the next 12 months
- Assisted our clients reduce their gross occupancy costs with solar:
  - 300 kW system being installed at Garden St, Kilsyth
  - ~165 kW system being installed at Ricky Way, Epping



1 West Park Drive, Derrimut



13 Ricky Way, Epping



5 Butler Boulevard, Adelaide

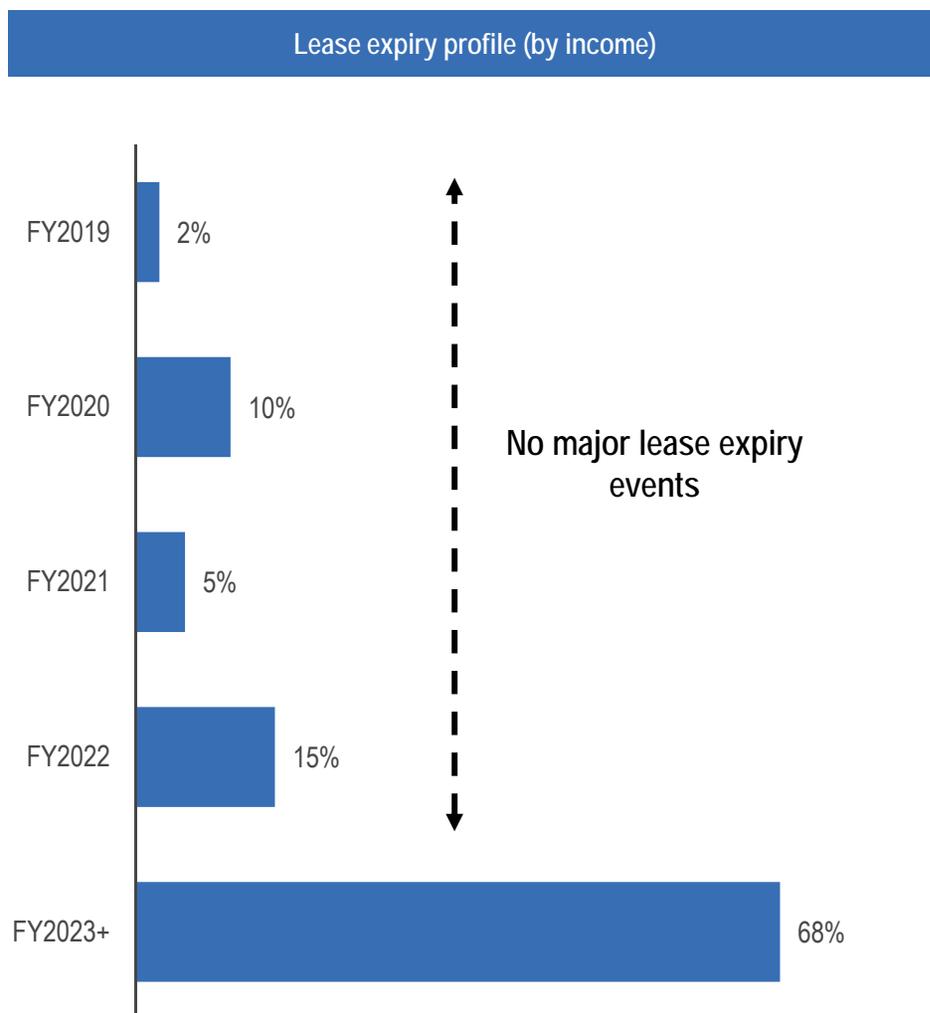
# 04 OUTLOOK



# Outlook

## Sustainable returns underpinned by quality and affordable workspaces

- Industria is well positioned:
  - High quality portfolio with annual fixed growth from rent reviews
  - No potential volatility from active earnings that may rely on development or fund management fees/profits
  - Focused and financially aligned management team that is highly engaged with tenant base to drive long-term consistent earnings growth
  - Demonstrated patience and ability to be disciplined when allocating capital
- Reiterating FY19 FFO guidance of 19.05 – 19.25 cps – reflecting 3 – 4% growth:
  - DPS guidance of 17.0 cps – 3% growth
  - Subject to current market conditions continuing and no unforeseen events



# APPENDICES



# Appendix A

## Property portfolio

## Portfolio details as at 31 December 2018

Property	State	Ownership	Sector	Book Value (\$m)	Cap Rate	NLA (sqm)	Occupancy (by area)	WALE (by area)
Building A, Rhodes	NSW	100%	Office	110.5	6.00%	14,642	100%	2.8
Building C, Rhodes	NSW	100%	Office	86.0	6.00%	10,544	100%	4.0
18 Brandl Street, BTP	QLD	100%	Office	12.8	8.00%	4,174	85%	2.0
37 Brandl Street, BTP	QLD	100%	Office	15.0	7.38%	3,329	46%	1.0
7 Clunies Ross Court and 17-19 McKechnie Drive, BTP	QLD	100%	Office	44.5	7.50%	8,876	100%	5.8
8 Clunies Ross Court and 9 McKechnie Drive, BTP	QLD	100%	Office	23.4	8.00%	5,704	50%	1.7
88 Brandl Street, BTP	QLD	100%	Office	15.1	7.75%	2,863	90%	2.4
BTP Central, BTP	QLD	100%	Office	41.7	7.50%	7,437	80%	1.7
1-3 Westrac Drive, Newcastle	NSW	100%	Industrial	197.0	6.00%	45,474	100%	15.7
140 Sharps Rd, Tullamarine	VIC	100%	Industrial	13.5	8.25%	10,508	100%	3.7
32-40 Garden Street, Kilsyth	VIC	100%	Industrial	18.3	6.50%	10,647	100%	6.0
34 Australis Drive, Derrimut	VIC	100%	Industrial	29.3	6.50%	25,243	100%	3.9
80-96 South Park Drive, Dandenong South	VIC	100%	Industrial	23.5	6.75%	20,245	100%	5.1
1 West Park Drive. Derrimut	VIC	100%	Industrial	10.6	6.75%	10,078	100%	4.2
89 West Park Drive. Derrimut	VIC	100%	Industrial	21.0	6.00%	17,024	100%	3.7
13 Ricky Way, Epping	VIC	100%	Industrial	15.7	6.50%	11,211	100%	6.0
5 Butler Boulevard, Adelaide Airport	SA	100%	Industrial	14.0	8.61%	12,334	89%	2.9
<b>Portfolio</b>				<b>691.8</b>	<b>6.54%</b>	<b>220,333</b>	<b>96%</b>	<b>6.4</b>

# Tenancy mix

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Tenant	% portfolio income
WesTrac	26%
Link Market Services	14%
AAE Retail	4%
Frasers Property	4%
Mitre 10	4%
Interactive	4%
Queensland Health	4%
RFS	3%
Dempsey Group	3%
Edlyn Foods	3%
Top 10 Tenants	69%
Other	31%
Total	100%

# Appendix B

Financial information

# Consolidated Statement of Financial Position

As at	31 December 2018	30 June 2018
	\$'000	\$'000
<b>Assets</b>		
Cash and cash equivalents	5,125	1,659
Trade and other receivables	539	1,134
Other assets	447	462
<b>Total current assets</b>	<b>6,111</b>	<b>3,255</b>
Investment properties	691,759	660,732
<b>Total non-current assets</b>	<b>691,759</b>	<b>660,732</b>
<b>Total assets</b>	<b>697,870</b>	<b>663,987</b>
<b>Liabilities</b>		
Payables	(6,361)	(3,904)
Derivative financial instruments	(637)	(418)
Distributions payable	(6,921)	(6,839)
Borrowings <sup>1</sup>	(46,057)	-
<b>Total current liabilities</b>	<b>(59,976)</b>	<b>(11,161)</b>
Payables	(481)	(390)
Derivative financial instruments	(1,622)	(1,267)
Borrowings <sup>2</sup>	(188,927)	(205,871)
Deferred tax liability	(6,171)	(5,344)
<b>Total non-current liabilities</b>	<b>(197,201)</b>	<b>(212,872)</b>
<b>Total liabilities</b>	<b>(257,177)</b>	<b>(224,033)</b>
<b>Net assets</b>	<b>440,693</b>	<b>439,954</b>
Number of Securities (millions)	162,839.7	162,839.7
NTA per Security (\$)	2.71	2.70

1. Current borrowings are net of capitalised debt establishment costs of \$193k (Jun-18: nil)

2. Non-current borrowings are net of capitalised debt establishment costs of \$626k (Jun-18: \$829k)

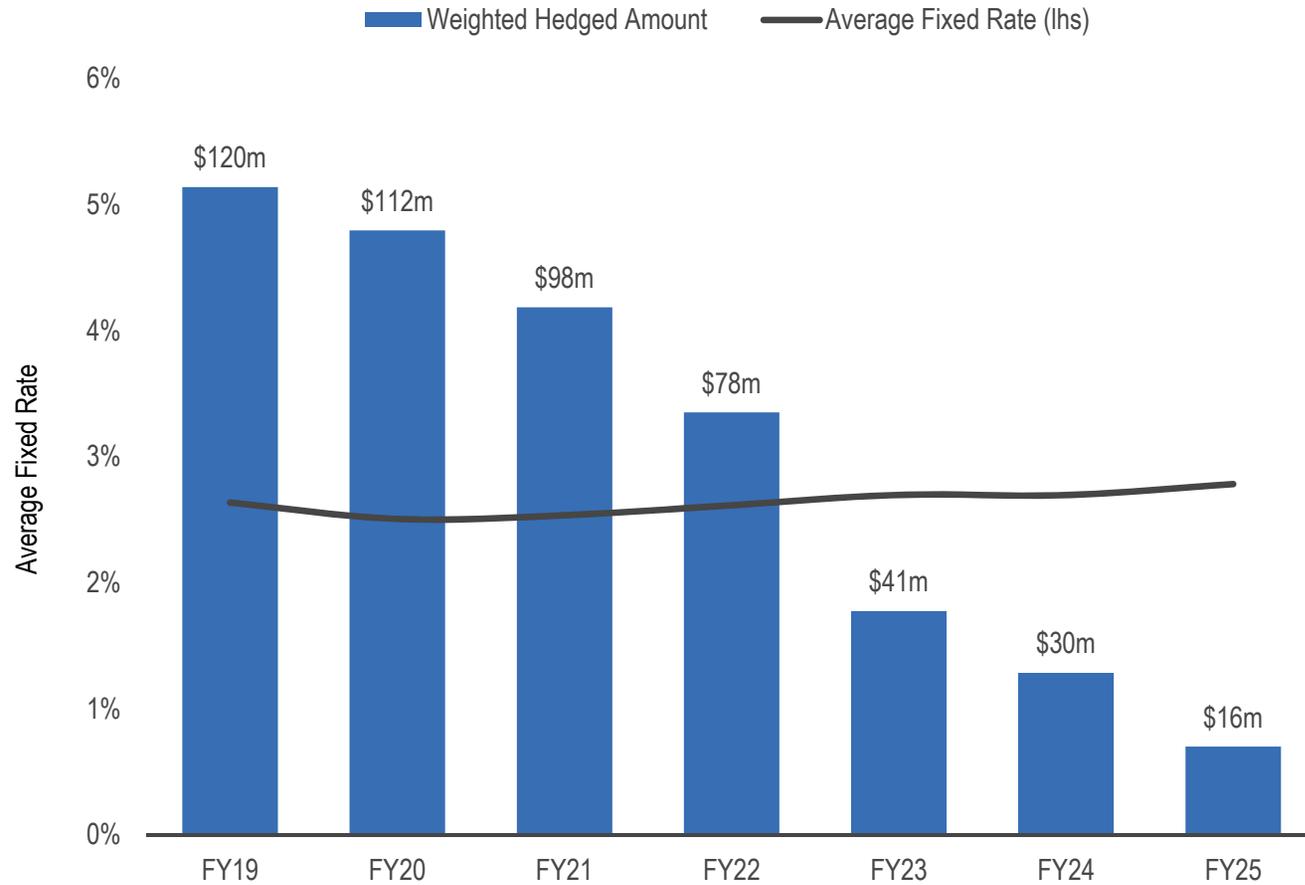
# Consolidated Statement of Profit or Loss and other comprehensive income

Financial period ended	31 December 2018	31 December 2017
	\$'000	\$'000
<b>Income</b>		
Net rental income	25,463	23,405
Straight line rental income recognition	1,699	2,027
<b>Total revenue</b>	<b>27,162</b>	<b>25,432</b>
<b>Expenses</b>		
Property costs	(5,675)	(4,696)
Trust management fees	(1,908)	(1,780)
Other expenses	(435)	(354)
<b>Total expenses</b>	<b>(8,018)</b>	<b>(6,830)</b>
<b>Net operating income (EBIT)</b>	<b>19,144</b>	<b>18,602</b>
Net fair value gain (loss) on investment properties	1,049	(1,357)
Fair value gain (loss) on derivatives	(574)	340
Net interest expense	(4,211)	(3,488)
<b>Net income before tax</b>	<b>15,408</b>	<b>14,097</b>
Income tax expense	(827)	(309)
<b>Net profit after tax</b>	<b>14,581</b>	<b>13,788</b>

## Reconciliation to FFO

Financial period ended	31 December 2018	31 December 2017
	\$'000	\$'000
Net profit after tax	14,581	13,788
Adjusted for:		
Reverse straight lining adjustments included in net rental income	(1,699)	(2,027)
Add back / (deduct) income tax expense / (benefit)	827	309
Add back amortised borrowing costs	200	168
Add back amortised leasing costs and rent free adjustments	1,866	1,525
Reverse fair value gain (loss) on investment properties	(1,049)	1,357
Reverse fair value gain (loss) on derivatives	574	(340)
<b>FFO</b>	<b>15,300</b>	<b>14,780</b>
<b>Distribution</b>	<b>13,842</b>	<b>13,364</b>
Weighted securities on issue (thousands)	162,840	162,985
Payout ratio (Distribution / FFO)	90.5%	90.5%
Distribution (cents per Security)	8.5	8.2
FFO (cents per Security)	9.4	9.1

# Interest rate hedging profile



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