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Goodman increases first half FY15 operating profit to \$327 million, with upgraded full year guidance

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Release Immediate

Goodman Group (Goodman or Group) today announced its results for the half year ended 31 December 2014, delivering an operating profit of \$327 million. Key financial and operational highlights for the period are:

Financial highlights

- + Operating profit of \$327 million¹, a 10% increase on the same period last year
- + Statutory profit of \$513 million¹ (including property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items)
- + Operating earnings per security (EPS)¹ of 18.7 cents², up 9% on 1HFY14
- + Total distribution of 11.1 cents per stapled security, up 7% on 1HFY14
- + Strong financial position maintained – balance sheet gearing of 20.2%³ and interest coverage ratio (ICR) of 5.9 times
- + Net tangible assets per security increased 9% to \$3.15, with a significant contribution from urban renewal projects
- + Group liquidity at \$1.5 billion, with weighted average debt maturity of 5.2 years
- + Positioned to deliver an upwardly revised forecast full year EPS growth of 7%, representing forecast FY15 operating EPS of 37.2 cents (up 7% on FY14)

Operational highlights

- + Total assets under management of \$29.4 billion, up 10% on FY14, reflecting increased valuations arising from the demand for quality and well performing industrial assets
- + Robust property fundamentals across core investment portfolio, with occupancy maintained at 96%, and weighted average lease expiry of 4.8 years
- + Development work in progress at \$2.9 billion across 69 projects in 12 countries, 61% pre-committed and 76% matched to third party capital, generating a forecast yield on cost of 8.7%
- + \$1.5 billion of new committed third party equity raised, endorsing Goodman's contemporary fund management and independent governance structures
- + Progressing urban renewal strategy, with positive planning outcomes achieved and \$500 million of sites now conditionally contracted

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Goodman's Group Chief Executive Officer, Mr Greg Goodman said, "Goodman outperformed our expectations in the first half to deliver an operating profit of \$327 million. This represents a 10% increase on the same period last year and equates to growth in operating earnings per security of 9%. The result was largely driven by our strong \$2.9 billion development book and robust property fundamentals, with net property income growth of 2.6% and 96% occupancy maintained across our high quality portfolio."

"The first half performance reaffirms our confidence in the Group's strategy, which is focused on selectively rotating assets, including higher and better use sites, enhancing our return on assets by recycling capital and securing new opportunities to drive long-term growth. This is being undertaken while maintaining our sound financial position and low gearing levels."

"In turn, the Group is well positioned for the second half of FY15 and we expect first half operating profit to be maintained. Accordingly, we have upwardly revised our forecast full year FY15 operating earnings per security to 37.2 cents, up 7% on FY14."

The Group's statutory profit for the half year of \$513 million is after property revaluations, derivative and foreign currency being marked to market and other non-cash or non-recurring items. The statutory profit was strongly influenced by higher valuations from certain Goodman urban renewal sites, reflecting zoning changes and comparable sales and contributing approximately \$170 million of asset revaluations in the first half. With identified urban renewal sites remaining consistent at 35,000 apartments, valuation uplifts are expected to be a recurring theme in future reporting periods.

The size and scale of Goodman's international operations provides a key point of differentiation, contributing 54% of first half operating earnings. The Group continues to realise significant diversification benefits from its international operating platform, with access to a broad range of quality opportunities due to the different timing of economic cycles. This is enhancing Goodman's brand as a leading global industrial property group.

Goodman's primary focus is on the quality of its assets and investing in customer relationships to understand their businesses and deliver property solutions that cater for their diverse and changing requirements. This was demonstrated in the half year with 1.7 million sqm of space leased and \$1.4 billion of new development commitments secured across Goodman's global markets.

Goodman continues to take a measured approach to its development-led strategy in the US and Brazil, building capability while selectively securing high quality, growth opportunities that meet its return hurdles. As a patient investor, Goodman has committed both capital and time in order to lay the foundation for generating sustainable long-term value, through the rollout of its \$3 billion development pipeline across the Americas.

In the first half, the Group and managed funds selectively disposed of \$1.1 billion of assets (excluding urban renewal sites), predominantly in Australia, the United Kingdom and New Zealand. Total asset disposals over the 2014 calendar year were in excess of \$1.9 billion and significantly, the sale proceeds have been used to match fund opportunities across our global development workbook.

Goodman further advanced its urban renewal activities during the half, with \$500 million of sites now conditionally contracted. Urban renewal activities have the potential to return significant amounts of capital to Goodman over the long-term and enable it to be increasingly self-funded.

Goodman is committed to delivering consistent and sustainable growth, while maintaining its focus on balance sheet strength. The Group has retained its gearing at 20%, with available liquidity of \$1.5 billion.

Goodman's managed funds completed an active half, with its capital partners participating in \$1.5 billion of new equity. Fund performance was strong, coupled with targeted asset selection and rotation, delivering on average a total return of 15%.

Total assets under management increased to \$29.4 billion in the first half, largely due to \$1.3 billion of development completions, 90% of which were undertaken on behalf of Goodman's managed funds or third parties. The growth in asset pricing was also a driver of total assets under management during the half year period, resulting in \$690 million of revaluations across Goodman's total property portfolio.

Operations

The Group's operations achieved an operating EBIT of \$354 million⁴, or an 11% increase compared with the same period last year, reflecting the organic growth and increased scale from Goodman's existing markets. The strong activity in the Group's development and management businesses contributed a combined 49% of operating EBIT, consistent with the high customer and investor demand for prime industrial space across all of Goodman's global markets. This also reflected the earnings composition, with a strong contribution from the development business resulting in the outperformance for the half and in the full year forecast. Investments contributed 51% of operating EBIT, with 33% from developments and 16% from management services.

Investments

Investments contributed operating EBIT of \$195.4 million, a 5% increase compared with the same period last year. Underlying property fundamentals were robust over the half year period. Overall occupancy was maintained at 96% across a portfolio of 439 properties, consistent with the same period last year. The weighted average lease expiry across the investment portfolio was 4.8 years.

Investment earnings increased, notwithstanding the completion of \$1.1 billion of asset disposals across the Group and managed funds, with property assets selectively rotated to take advantage of the market demand for industrial properties, with capital recycled into higher growth opportunities.

Developments

Developments contributed operating EBIT of \$127.3 million, a 24% increase compared with the same period last year. Goodman's development business performed strongly, driven by customer demand for well-located, modern logistics space to drive greater business efficiencies and returns. Goodman's work in progress as at 31 December 2014 was \$2.9 billion, generating a yield on cost of 8.7% and equating to 2.4 million sqm of new space across 69 projects in 12 countries. This has ensured that the Group remains one of the largest developers of industrial property globally.

The Group experienced significant development activity across all of its operating markets:

- + In Asia, Goodman's targeted approach and focus on quality in the undersupplied markets of China and Japan is delivering growing and sustainable returns.
- + Customer demand continues to underpin stable volumes in Europe, with predominantly pre-committed development activity being undertaken.
- + Cyclical improvements are evident in markets such as New Zealand and the United Kingdom, where improved business activity levels are being reflected in higher volumes from Goodman's development-led approach.
- + Development activity increased in the Group's US platform over the half, with two new projects under development in the Inland Empire West market of Southern California.
- + In Brazil, Goodman is progressing well with the measured rollout of its development-led approach, with 275,000 sqm of developments underway.
- + Combined, the Americas now represent 19% of the Group's total development work in progress.

Developments without customer pre-commitments were undertaken in supply constrained markets, which are proven logistics locations. Pre-leasing enquiries have remained strong, highlighted by the positive results achieved with Goodman Mizue (59,000 sqm) in Tokyo, and Goodman Citylink (100,000 sqm) in Langfang, China being 100% pre-leased prior to completion. Development risk is further mitigated through the capital partnering approach we have adopted in our larger markets of the US, Brazil, Japan and China. This is further demonstrated with 90% of all completions being for Goodman's managed funds or third parties.

Management

Management contributed operating EBIT of \$59.7 million, a 4% increase compared with the same period last year. The Group's managed funds performed strongly in the half year, executing a development-led strategy in undersupplied markets and selectively recycling assets to provide capital for reinvestment into higher growth opportunities.

Third party assets under management increased to \$24.6 billion over the first half, an increase of 14% compared to 31 December 2013. This was a key driver of the growth in Management earnings, predominantly as a result of development completions and growth in asset pricing.

Goodman's managed funds remain attractive to global investor groups, providing access to high quality growth opportunities that underpin long-term value creation. The Group's funds have significant activity and investment capacity, with \$6.4 billion⁵ of undrawn equity and debt available and proceeds from ongoing asset recycling initiatives, to participate in a broad range of growth opportunities from the Group and broader market.

Capital Management

Goodman maintained its sound financial position during the first half of FY15, demonstrated by the successful completion of balance sheet recycling opportunities and the Group's selective approach to pre-sold developments. As a result, gearing was retained at 20%. Interest cover remains high at 5.9 times.

Available liquidity is currently \$1.5 billion, providing financial flexibility for future periods. The Group has a weighted average debt maturity profile of 5.2 years, with debt maturities fully covered to the end of the 2018 calendar year.

Goodman has continued to deliver on its strategy of diversifying its debt funding sources and demonstrated its ongoing access to global debt capital markets. During the half year, the Group and managed funds procured \$2.2 billion of facilities with an average term of 5.0 years. Furthermore, Goodman European Logistics Fund (GELF) successfully priced its second seven year, €400 million Eurobond issue with an annual coupon of 1.75%. GELF also had its credit rating upgraded to Baa2 by Moody's Investor Services.

Separately, the Group's Distribution Reinvestment Plan was active over the half year, raising a total of \$45 million.

Outlook

Goodman's first half result has outperformed expectations and it is in a strong position to maintain its earnings momentum in the second half of FY15, by selectively pursuing high quality growth opportunities in key logistics markets globally.

The Group is deriving significant benefit from its geographically diverse operating platform and the differing timing of economic cycles. Combined with the ongoing investor demand for high quality industrial assets, Goodman continues to be opportunistic in markets where strong pricing is providing attractive conditions to selectively rotate assets where value has been maximised, including urban renewal opportunities. This is driving enhanced investor returns, with Goodman reinvesting significant capital into new developments and property investment opportunities.

Goodman's Group Chief Executive Officer, Mr Greg Goodman said, "Goodman's customer focus and global relationships are also providing significant ongoing opportunities, by leveraging the Group's expertise and capability to provide modern, high quality property solutions that enable customers to fulfil their changing business needs and realise greater operating efficiencies. This is expected to be a key driver of second half FY15 demand across Goodman's development activities, combined with the continued performance of our quality stabilised portfolio."

Accordingly, Goodman is forecasting full year FY15 operating earnings per security of 37.2 cents, up 7% on FY14 and a forecast distribution of 22.2 cents, up 7% on FY14.

- Ends -

For further information, please contact;

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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 fund managers of industrial property and business space globally.

Goodman's global property expertise, integrated own+develop+manage customer service offering and significant fund 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.

¹ Operating profit and operating EPS comprise profit attributable to Securityholders, adjusted for property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items. Operating profit is used to present a clear view of the underlying profit from operations. It is used consistently and without bias year on year for comparability. A reconciliation to statutory profit is provided in summary on page 10 of the ASX Results Presentation and in detail on page 4 of the Directors' Report as announced on ASX and available from the Investor Centre at www.goodman.com.

² Calculated based on weighted average diluted securities of 1,749.2 million, including 9.5 million LTIP securities which have achieved the required performance hurdles and will vest equally in September 2015 and September 2016.

³ Calculated as total interest bearing liabilities over total assets, both net of cash and fair values of cross currency swaps used to hedge liabilities denominated in currencies other than those to which the proceeds are applied equating to \$121.6 million – refer to Note 8 of the Financial Statements.

⁴ Operating EBIT comprises statutory profit before interest and tax of \$620.0 million adjusted for property valuations and other non-cash or non-recurring items. A reconciliation to statutory profit before interest and tax is provided in Note 4 of the Financial Statements.

⁵ Fund investments are subject to investment committee approval