Goodman

asx release+

Goodman delivers strong full year FY16 operating profit of $715 million, with operating EPS up 7.8% and a positive FY17 outlook

Date	11 August 2016
Release	Immediate

Goodman Group (Goodman or Group) today announced its results for the full year ended 30 June 2016, delivering an operating profit of $715 million and statutory profit under IFRS[1] of $1,275 million. The execution of the Group's business strategy continues to generate opportunities to capitalise on the demand for modern, high quality logistics space in key gateway cities globally and ensures Goodman is well positioned to drive consistent earnings growth in future periods.

Key financial and operational highlights for the period are:

Financial highlights

+ **Operating profit of $715 million[2], a 9% increase on the same period last year**
+ **Statutory profit of $1,275 million[2] (including property and intangible valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items)**
+ **Operating earnings per security (EPS)[2] of 40.1 cents[3], up 7.8% on FY15**
+ **Total distribution of 24.0 cents per stapled security, up 8% on FY15**
+ **Net tangible assets per security increased 19% to $4.10, with a significant contribution from urban renewal projects**
+ **Strong operating cash flow and financial position maintained, with balance sheet gearing of 11.8%[4] , interest coverage ratio (ICR) of 5.5 times and $2.6 billion of liquidity to cover average debt maturities of 4.4 years**
+ **Positioned to deliver a target long-term operating EPS growth of 6%, resulting in forecast FY17 operating EPS of 42.5 cents (up 6% on FY16)**
+ **Target distribution payout ratio unchanged at 60%, resulting in a forecast FY17 distribution of 25.4 cents per security (up 6% on FY16)**

Operational highlights

+ **Total assets under management of $34.1 billion, up 13% on FY15, reflecting increased valuations arising from the demand for quality and well performing industrial assets**
+ **Robust property fundamentals across the core investment portfolio, with occupancy maintained at 96%, and weighted average lease expiry of 4.7 years**
+ **Development work in progress of $3.4 billion across 81 projects in 14 countries, 68% pre-committed and 74% pre-sold to third parties or managed partnerships, generating a forecast yield on cost of 7.8%**

Goodman Group
Goodman Limited | ABN 69 000 123 071
Goodman Funds Management Limited | ABN 48 067 796 641 | AFSL Number 223621
as responsible entity of Goodman Industrial Trust | ARSN 091213 839
Level 17, 60 Castlereagh Street, Sydney NSW 2000 | GPO Box 4703, Sydney NSW 2001 Australia
Tel +61 2 9230 7400 | Fax +61 2 9230 7444

Goodman Logistics (HK) Limited | Company No. 1700359 | ARBN 155 911 149 | a Hong Kong company with limited liability
Suite 901, Three Pacific Place, 1 Queen's Road East, Hong Kong | Tel +852 2249 3100 | Fax +852 2525 2070

info-au@goodman.com | www.goodman.com

- **Group and Partnerships deleveraging, with $10.3 billion of undrawn debt, cash and equity capital**
- **Progressing urban renewal strategy ahead of expectations, a total of $2.1 billion of sites sold and conditionally contracted, with $0.8 billion settled in FY16**

Goodman's Group Chief Executive Officer, Greg Goodman said: "Our global business has performed above expectations in FY16 and our strategy to focus on development and fund this through asset rotation is being well executed. Ultimately, the result was driven by the quality and strength of Goodman's global capability, the depth of our customer relationships and active investment partnerships.

We continue to focus on improving the quality of our properties and income, capitalising on the strong demand for modern, well located logistics space. This is being underpinned by a number of significant themes transforming the industrial sector globally, including the growth in consumerism, the urbanisation of our cities and the evolution of e-commerce. With e-retailers expanding their networks and seeking to optimise delivery solutions; logistics markets changing and evolving in and around gateway cities; and customers' focus on increasing operational and supply chain efficiencies through technology and distribution platforms, our strategy remains focused on quality and location, while leveraging these opportunities. We expect these themes to be key drivers of Goodman's earnings and with our through-the-cycle planning approach, have positioned our business to realise the opportunities being provided. This will continue to create significant value for all of our stakeholders and underpin the robust, high quality business we are building for the long term."

Goodman has been at the forefront of the evolution of the industrial property sector, establishing a truly global business and international operating platform, which has been prudently built over time and focused on owning quality assets in strategic locations. This enables the Group to provide a consistent business strategy, specialising in industrial real estate, to deliver innovative solutions for its customers, while partnering with global capital to access the best quality opportunities and drive long-term total returns. The benefit of Goodman's geographical diversification and stability of earnings is evident, with 59% of earnings contributed from Goodman's international operations.

Statutory profit under IFRS[1] was $1,275 million for the full year and is after property and intangible revaluations, derivatives being marked to market and other non-cash or non-recurring items. The statutory profit was primarily influenced by positive property revaluations totalling $810 million, which included valuation uplifts from a number of urban renewal sites.

The growth in active earnings from Goodman's development and management businesses is being balanced by maintaining a strong financial position. This disciplined approach to risk management is reflected in the Group's gearing, which reduced to 11.8% at financial year end. Lower gearing in the managed Partnerships resulted in "look through" gearing reducing to 24.6% and is expected to continue to moderate.

Operations

The Group achieved an operating EBIT of $879 million[5], or a 23% increase compared with last year. Even after taking into account the benefit of the lower Australian dollar, the result reflects the organic growth, geographic diversification and increased scale from Goodman's existing markets. The strong activity experienced across the Group's development and management businesses were key drivers of performance over the full year and highlight the ongoing high level of customer and investor demand for prime industrial space across Goodman's global markets. The development and management businesses increased their contribution to 39% and 18% of operating EBIT respectively.

Investments

Investments contributed operating EBIT of $407 million, a 3% increase compared with last year. The stability in investment earnings reflects ongoing asset sales, development completions and the deleveraging in the Partnerships. The result included the completion of a further $2.2 billion of asset disposals (excluding urban renewal sites) across the Group and its managed Partnerships. This is consistent with the strategy of improving the overall quality of Goodman's portfolio and income being generated, by selectively rotating property assets and reinvesting capital into development opportunities.

Sound underlying property fundamentals over the full year period resulted in 3.4 million sqm of space successfully leased across Goodman's quality portfolio of 412 properties globally. Like for like rental growth was 1.9% and new leasing deals had positive lease reversions of 3.0%. Overall occupancy was maintained at 96%, with a 79% retention rate, highlighting the value of Goodman's offering. The weighted average lease expiry across the investment portfolio was 4.7 years as at 30 June.

Momentum continued with the rollout of the Group's urban renewal strategy during the year, achieving positive planning outcomes on a number of sites and maintaining a current urban renewal pipeline of 35,000 apartments in Australia. Reflecting the ongoing demand for re-zoned residential sites, Goodman has sold and conditionally contracted a further $1.0 billion of urban renewal sites during the year, bringing the total sold and conditionally contracted sites to $2.1 billion ($1.6 billion Group / $0.5 billion Partnerships) as at 30 June 2016. Of this amount, Goodman settled $0.8 billion of urban renewal transactions in FY16, with a further $1.0 billion of settlements to occur in FY17.

Developments

Developments contributed operating EBIT of $366 million, a 43% increase compared with last year. The strong performance of the development business was driven by increased volumes, highlighting the demand for prime logistics space and the ongoing improvement of development margins. This continues to be underpinned by robust underlying domestic consumption in major gateway cities; ongoing structural changes, including the rapid growth in ecommerce; and customers focusing on realising greater efficiencies and returns from their properties. The positive impact of these factors is reflected in the $3.3 billion of new projects that Goodman commenced in FY16.

Goodman undertook significant development activity across all of its operating regions during the year, in particular from Europe and North America, which represented half of all development commencements. Development work in progress has increased to $3.4 billion, generating a yield on cost of 7.8% and equating to 2.5 million sqm of new space, across 81 projects in 14 countries.

The Group has maintained its disciplined and prudent development approach by focusing on maintaining a strong balance sheet, underpinned by asset rotation initiatives, targeted speculative development in supply constrained markets, and capital partnering, which is seeing a greater proportion of development being undertaken in Goodman's Partnerships.

Management

Management contributed operating EBIT of $166 million, a 33% increase compared with last year. The Group's Partnerships performed strongly over the year, with higher revenue derived from growth in transactional activity. This was delivered by the Partnerships executing a development-led strategy and selectively undertaking a range of asset rotation initiatives during the year. The proceeds from these initiatives are providing a key source of capital for the development strategy being increasingly implemented across the Partnership platform, while also reducing gearing. This is improving portfolio quality and maintainability of income, and enabling investment partners to access growth opportunities in proven locations that are not readily available on the open market.

A key driver of the growth in Management earnings was the increase in third party assets under management to $29.3 billion at year end. This represents a 16% increase compared to 30 June 2015 and was primarily the result of development completions, sustained growth in asset pricing and foreign currency movements.

Global investment partners continue to support Goodman's Partnerships, with a further $2.3 billion of equity raised during the full year period. This reflects the proven ability of the Group's investment management platform to drive strong ongoing total returns and deliver long-term value creation. The Group and its Partnerships have available investment capacity of $10.3 billion[6] of undrawn equity, debt and cash, to participate in a broad range of growth opportunities from the Group and broader market.

The execution of our active management strategy has resulted in average managed Partnership total returns exceeding 20%.

Capital Management

Goodman has maintained its commitment to a strong financial position, consistent with its long-term view towards its real estate investments and focus on delivering sustainable growth and competitive, risk adjusted returns. Goodman continues to ensure it is appropriately positioned to fund its development workbook, absorb any changes in market volatility and take advantage of growth opportunities over the longer term. The settlement of $0.8 billion of urban renewal transactions in FY16 has resulted in gearing further reducing to 11.8% and, with available liquidity currently at $2.6 billion, Goodman has considerable financial flexibility for future periods and the ability to fund longer-term growth opportunities. The Group has a weighted average debt maturity profile of 4.4 years, with debt maturities fully covered to June 2021.

Outlook

The Group's overall strategy remains unchanged. Goodman continues to position itself as a leading global industrial property group, building a financially strong and competitive business for the future. In this context, the focus remains on:

+ Improving asset and income quality across the portfolio through targeted asset rotation initiatives, albeit at a slower rate.
+ Balance sheet gearing continuing to fall as proceeds from urban renewal transactions settle.
+ Development volumes expected to remain consistent, driven by the structural changes impacting the industrial property sector.
+ A strong development business, coupled with the demand from investors seeking high quality, well located industrial assets, will continue to support the organic growth in assets under management.
+ Positive investment total returns from the Partnerships, given their active and flexible structure.
+ Urban renewal pipeline of 35,000 apartments across the Australian portfolio maintained, with the focus on planning and rezoning of future precincts.
+ The Group has enhanced its remuneration elements to align management remuneration with long-term performance outcomes and strategy. This entails weighting incentives to the long term and capping of short-term incentives for key management personnel, with payment split into two equal instalments over twelve months.

Accordingly, Goodman is well positioned to deliver a forecast full year FY17 operating earnings per security of 42.5 cents, up 6% on FY16, with forecast FY17 distributions of 25.4 cents, up 6% on FY16.

- Ends -

For further information, please contact;
Greg Goodman
Group Chief Executive Officer
Tel: + 612 9230 7400

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 long-term returns for investors.

---

[1] International Financial Reporting Standards.

[2] Operating profit and operating EPS comprise profit attributable to Securityholders, adjusted for property and intangible 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 6 of the Directors' Report as announced on ASX and available from the Investor Centre at www.goodman.com.

[3] Calculated based on weighted average diluted securities of 1,781.2 million, including 10.9 million LTIP securities which have achieved the required performance hurdles and will vest in September 2016 and September 2017.

[4] 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 $258.2 million – refer to Note 13 of the Financial Statements.

[5] Operating EBIT comprises statutory profit before interest and tax of $1,383 million adjusted for property and intangible 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.

[6] Partnership investments are subject to investment committee approval.