



Stride Property Group (NS)

NZX Announcement

IMMEDIATE — 23 June 2020

Stride Property Group – FY20 Annual Report and Results

Stride Property Group (Stride) (Note 1) is pleased to announce that it has released its Annual Report and Results Presentation for the twelve months ended 31 March 2020 (FY20).

During FY20 Stride has successfully progressed with its strategy of establishing a group of Products in specific commercial property sectors to provide growth in its investment management business, including the announcement of Stride's latest investment management Product in September 2019, the Industrie Property Joint Venture (Industrie).

Stride Investment Management Limited (SIML) and Stride Property Limited (SPL) are also pleased to announce fourth quarter (1 January 2020 to 31 March 2020) dividends to be paid by each company on 8 July 2020 to all shareholders on the register as at the close of business on 1 July 2020, as follows:

- SPL announces a cash dividend for the fourth quarter of FY20 of 2.1575 cents per share.
- SIML announces a cash dividend for the fourth quarter of FY20 of 0.32 cents per share.

This brings the total combined cash dividend for Stride Property Group for FY20 to 9.91cps, in line with guidance.

The Dividend Reinvestment Plan remains suspended for the FY20 fourth quarter dividends.

Highlights for FY20 include:

Financial Performance – Stride Property Group

- Net rental income of \$59.1m (FY19: \$57.3), up \$1.8m
- Profit before income tax of \$28.7m (FY19: \$81.4m), down \$52.7m
- Profit after income tax of \$25.3m (FY19: \$76.2m), down \$50.9m, due to a lower valuation movement of \$38.3m, lower share of profit in associates of \$3.1m, hedge ineffectiveness of cashflow hedges (\$8.2m) and impairment of work in progress costs (\$2.0m)
- Distributable profit (Note 2) after current income tax of \$37.7m or 10.32cps (FY19: \$38.8m or 10.62cps)
- Net Tangible Assets (NTA) per share of \$1.91, down 1 cps from \$1.92 as at 31 March 2019

- NTA of \$1.91 does not include the value of SIML's management contracts with Stride's Products
- Combined 9.91cps cash dividend for Stride for FY20, in line with guidance

Places – Stride Property Limited

- Total portfolio value of \$996.1m (Note 3), a net valuation decline of \$1.8m or 0.2% from 31 March 2019. The revaluation of the portfolio has been impacted by 'material valuation uncertainty' due to COVID-19 (Note 4)
- Loan to Value Ratio (LVR) of 39.1% at balance date (34.4% as at 31 March 2019), reducing to 17.8% on a pro forma basis (Note 5)

Transactions

- Sale of three large format retail properties to Investore Property Limited (Investore) for \$140.75m, settled 30 April 2020
- Industrial acquisitions of The Concourse, Auckland, for \$35m, settled on 27 June 2019, and the post-balance date purchase of Wickham Street, Hamilton for \$10m, settled on 1 April 2020. These properties will form part of the Industrie Property Joint Venture which is expected to commence on 30 June 2020
- Sale of office property at Corinthian Drive, Auckland, for \$50.5m, settled on 1 April 2019, equating to an initial yield of 5.88%

SPL Portfolio Metrics

- Following the establishment of the Industrie Property Joint Venture and the sale of the three large format retail properties to Investore, SPL will hold its investments in industrial and large format retail property through Industrie and Investore respectively
- When SPL's directly-held investment properties are combined with SPL's look-through holdings in the other SIML-managed products, including its approximate 68.3% holding in Industrie, its 18.8% holding in Investore (Note 6) and its 2% holding in Diversified, SPL's \$960m look-through portfolio shows strong investment metrics (Note 7), including 98.1% occupancy and a WALT of 7.1 years

Developments

- Waste Management: Stride was very proud to deliver the Waste Management Auckland Headquarters development at 318 East Tamaki Road, Auckland, in December 2019. This property is valued at \$98.0m as at 31 March 2020. The successful delivery of this project has led to additional development opportunities with Waste Management:
 - 11 Selwood Road, Henderson (25 year lease, \$42.5m estimated value on completion): development has commenced on an industrial facility with completion expected in late 2020
 - Wickham Street, Hamilton (25 year lease, \$28.0m estimated value on completion): part of this property will be developed as a resource recovery park with completion also expected in late 2020

People

- Board refresh continues with appointment of Nick Jacobson in July 2019
- David van Schaardenburg retired on 29 August 2019 after 9 years as a Director
- First group of managers completed externally-facilitated leadership development course

Products

Investore Property Limited (Investore)

- 40 rent reviews completed over 125,000 sqm resulting in a 4.0% increase to previous rentals
- Successful acquisition of over \$225m of properties over the last three years, including acquisition of Countdown New Brighton in FY20 and the post balance date acquisition of three properties from SPL for \$140.75m
- \$183m capital raised over past nine months to support acquisitions and provide balance sheet flexibility for future growth
- Weighted Average Lease Term of 10.4 years (Note 8)
- 99.7% occupancy by area (Note 8)
- \$6m upgrade works planned for Bunnings Carr Rd, Mt Roskill, with associated improvements rental on completion
- \$186m financing of bank debt (including post balance date transactions)
- Loan to value ratio (LVR) 30.4% (Note 9), down 11.4% from prior year

Diversified NZ Property Trust (Diversified)

- As a result of COVID-19, the valuations of the four shopping centres owned by Diversified have declined by \$70.5m or 14.5% on a gross basis for FY20
- The \$110m redevelopment at Queensgate Shopping Centre is well underway with the carpark scheduled to open in early 2021 and the state of the art cinema complex in early 2022
- SIML completed 278 leasing transactions on behalf of Diversified in FY20, resulting in an increase in rentals of 1.8% over previous rentals

New Product – Industrie Property Joint Venture (Industre)

- FY20 saw a significant milestone for Stride in the development of its investment management business with the agreement to establish Industrie, expected to commence operations on 30 June 2020, following receipt of consent under the Overseas Investment Act on 3 June 2020
- Industrie will be a joint venture with a group of international institutional investors, through a special purpose vehicle and advised by J.P. Morgan Asset Management (together, JPMAM)
- Initially SPL is expected to have a 68.3% shareholding in Industrie's \$398m portfolio (Note 10) on commencement, with JPMAM holding the remainder

- JPMAM has allocated \$115m of capital, in addition to the capital allocated to acquire the 12 industrial properties owned by SPL as at 31 March 2020 as part of Industrie's initial portfolio. This capital will fund near term growth initiatives, subject to meeting certain investment return and approval thresholds, such as the Wickham Street acquisition and development. This takes JPMAM's total equity committed to \$185m, subject to completion

Growth Opportunities

- SPL has banking facility headroom of over \$218m (Note 5)
- Investore has banking facility headroom of \$148m (Note 11)
- Industrie has access to additional committed capital of \$154m (Note 12)
- This provides \$520m of committed funding for Stride and its Products to invest in new portfolio opportunities, in addition to current committed acquisitions and developments, consistent with the growth strategies of Stride and each of these Products. When combined with Stride's current assets under management of \$2.2bn, this provides a pathway to grow Stride's investment management business to approximately \$2.8bn

COVID-19 Update

- SPL will have a Loan to Value Ratio of 17.8% and available debt facility of \$218m following the commencement of Industrie (Note 5), putting it in a very strong position to successfully manage the uncertainties associated with COVID-19 and explore opportunities beyond COVID-19
- SPL's valuations were impacted by COVID-19 due to 'material valuation uncertainty' (Note 4). This review saw a \$66.5m decrease from the initial draft valuations received in early March, and resulted in a net valuation decline from 31 March 2019 of \$1.8m or 0.2% to a total portfolio value (Note 3) of \$996.1m as at 31 March 2020
- Stride currently expects the financial impact from COVID-19 to result in a reduction in distributable profit (Note 2) for FY21 of between \$2.9m and \$5.1m. However, this is expected to be partially offset by one-off activity based income in FY21, expected to increase distributable profit by between \$2.2m and \$3.6m

Capital Management – SPL

- \$135m of banking facilities expiring June 2021 were extended three years to June 2024 in April 2020 (post balance date)
- Next debt facility maturing is \$170m in August 2022 (FY23)
- \$200m of banking facilities will be cancelled on Industrie completion, reducing the facility limit to \$305m
- Drawn debt is expected to fall to \$87m on a pro forma basis (Note 5), resulting in \$218m of headroom and an LVR of 17.8%
- \$120m of swaps anticipated to be broken on the commencement of Industrie to avoid over-hedging, at an expected cost of \$9.4m based on the market value of these swaps as at 31 May 2020

Conclusion

- The establishment of Industre, together with the growth of Investore, have been important recent steps in the delivery of our strategy
- Stride will continue to focus on establishing a group of commercial property investment management Products to provide growth in our investment management business
- Growth of Industre, Investore and Diversified are key focusses for the future
- SPL's low LVR also means it is well positioned to consider strategically aligned acquisitions during FY21 if market conditions and opportunities allow
- The recent nature of COVID-19 means there remains uncertainty for the outlook for FY21. The Boards confirm that they intend to pay quarterly dividends for the FY21 year, in line with current policy, and currently anticipate that the combined dividends per share for SPL and SIML will be 9.91 cps. The Boards will continue to keep the market informed during the financial year as the impacts of COVID-19 on the full year results become more certain

Notes:

1. Stride Property Group (Stride) comprises Stride Investment Management Limited (SIML) and Stride Property Limited (SPL). A stapled security of the Stride Property Group comprises one share in SIML and one share in SPL. The stapled securities are quoted on the NZX Main Board under the ticker code SPG. Information presented in this presentation is on a combined basis unless otherwise specified.
2. Distributable profit is a non-GAAP financial measure and consists of profit/(loss) before income tax, adjusted for determined non-recurring and/or non-cash items, share of profits in associates, dividends received from associates and current tax. Further information, including the calculation of distributable profit and the adjustments to profit before income tax, is set out in note 4.3 to the consolidated financial statements for the year ended 31 March 2020.
3. Excludes lease liabilities of \$27.5m. The portfolio as at 31 March 2020 includes the three large format retail properties that SPL agreed to sell to Investore Property Limited for \$140.75m. These properties are classified as investment properties held for sale and are recorded at \$132.2m as at 31 March 2020, after allowing for the cost of seismic upgrade works that SPL has committed to undertake on the properties, a rental underwrite and disposal costs. This transaction settled on 30 April 2020.
4. Due to COVID-19, SPL's 31 March 2020 investment property valuations have been reported on the basis of 'material valuation uncertainty', meaning less certainty and a higher degree of caution should be applied. The opinion of value has been determined at the valuation date based on a certain set of assumptions, however these could change in a short period of time due to subsequent events.
5. As at 31 March 2020, as if the following transactions had completed as at that date: (1) the sale of the three large format retail properties to Investore Property Limited (Investore); (2) the refinancing of \$135m of bank facilities for three years announced on 1 May 2020; (3) the subscription by SPL for \$16.5m of additional shares in Investore's capital raising announced on 29 April 2020; and (4) the commencement of the Industre Property Joint Venture, including the expected cost of breaking \$120m of interest rate derivatives at an estimated cost of \$9.4m based on the market value of these derivatives as at 31 May 2020.
6. Following the capital raising undertaken by Investore during April and May 2020, SPL's shareholding in Investore is 18.8%. SPL's shareholding in Investore as at 31 March 2020 was 19.4%.
7. As at 31 March 2020, as if the following transactions had completed as at that date (1) the sale of the three large format retail properties to Investore; (2) Industre had commenced and the committed acquisitions and developments had completed; and (3) the committed development by Diversified at Queensgate Shopping Centre had completed.
8. As at 31 March 2020, as if the acquisition of the three properties from SPL had settled as at that date.

9. As at 31 March 2020, as if the capital raising announced on 29 April 2020 and the acquisition of the three properties from SPL had completed as at that date.
10. Industrie portfolio value on commencement comprises 31 March 2020 valuations of existing properties, including Wickham Street, Hamilton, plus estimated capex incurred prior to commencement of Industrie.
11. As at 31 March 2020, as if the acquisition of the three properties from SPL and the capital raising announced in April 2020 had completed as at that date, and as if the new \$50m facility announced on 28 April 2020 was in place as at that date.
12. JPMAM, the Industrie joint venture partner, has allocated \$115m of capital (in addition to the capital allocated to acquire the 12 industrial properties owned by SPL on 31 March 2020 as part of the Industrie initial portfolio) to fund near term growth initiatives, subject to meeting certain investment return and approval thresholds, such as the Wickham Street acquisition and development. This commitment, in addition to the uncommitted portion of Industrie's \$205m banking facilities, will result in Industrie having capacity to fund further portfolio growth of approximately \$154m in addition to currently committed acquisition and developments.

Ends

Attachments provided to NZX:

- Stride Property Group – FY20 Annual Results Announcement - 230620
- Stride Property Group – FY20 Annual Report – 230620
- Stride Property Group – FY20 Annual Results Presentation – 230620
- Stride Property Group – NZX Results Announcement – 230620
- Stride Property Limited – NZX Distribution Notice – 230620
- Stride Investment Management Limited – NZX Distribution Notice – 230620
- Stride Property Group – Shareholder Communications Notice – 230620

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A Stapled Security of the Stride Property Group comprises one ordinary share in Stride Property Limited and one ordinary share in Stride Investment Management Limited. Under the terms of the constitution of each company, the shares in each can only be transferred if accompanied by a transfer of the same number of shares in the other.

Stapled Securities are quoted on the NZX Main Board under the ticker code SPG. Further information is available at www.strideproperty.co.nz or at www.nzx.com/companies/SPG.