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Stride Property Group (NS)

NZX Announcement

IMMEDIATE — 25 November 2020

Stride Property Group HY21 Interim Results and Capital Raise

Stride Property Group (Stride) (note 1) is pleased to announce its interim results for the six months ended 30 September 2020 (HY21).

Stride is also pleased to announce that it has entered into a conditional agreement to acquire a premium grade office property at 20 Customhouse Quay, Wellington, for \$228m. If this acquisition proceeds, it will be the third office acquisition announced by Stride in the last three months, and will take SPL's office portfolio to \$57.1m (on a pro forma basis as at 30 September 2020).

Stride is commencing a capital raising (Offer) to raise up to \$220m, comprising an underwritten \$180m placement and a non-underwritten \$40m share purchase plan with the ability to accept additional applications under the share purchase plan at Stride's discretion. The proceeds of the capital raise will be used to partly fund the acquisitions of 20 Customhouse Quay, Wellington, and 215 Lambton Quay, Wellington (announced on 19 November 2020).

HY21 Interim Results

Stride has delivered favourable results during this six month period, with profit after income tax from continuing operations of \$51.6m, up \$24.6m from the six months to 30 September 2019 (HY20). The financial statements for HY20 have been restated to be on a comparable basis given the establishment of the Industrie Property Joint Venture (Industrie) during the period in review, and the associated transfer of industrial assets to Industrie.

Stride currently expects combined cash dividends for FY21 will be 9.91cps, assuming no further significant restrictions or deterioration in economic activity due to COVID-19. Stride expects to declare a combined cash dividend of 2.4775 cps for Stride Property Limited (SPL) and Stride Investment Management Limited (SIML) for the quarter ended 30 September 2020 on 30 November 2020.

Financial Performance – Stride Property Group

- Net rental income of \$20.5m (HY20: \$24.6m), down \$4.1m, of which \$3.4m relates to the sale of three large format retail assets to Investore Property Limited on 30 April 2020
- Management fee income of \$13.1m (HY20: \$9.2m), up \$3.9m
- Profit before income tax from continuing operations of \$55.2m (HY20: \$32.7m), up \$22.4m

- Profit after income tax from continuing operations of \$51.6m (HY20: \$27.0m), up \$24.6m
- Distributable profit (note 2) after current income tax of \$21.1m (HY20: \$19.3m), up \$1.8m

Places – Stride Property Limited

- Total portfolio value (note 3) of \$726.3m as at 30 September 2020, a net valuation increase of \$21.1m or 2.9% from 31 March 2020. Five of the portfolio valuations remain subject to 'material valuation uncertainty' as a result of COVID-19
- SPL office and retail portfolio value of \$564.4m as at 30 September 2020, a net valuation increase of \$9.6m or 1.7%, from 31 March 2020
- Net Tangible Assets (NTA) per share of \$2.00 as at 30 September 2020, expected to be \$2.01 on a pro forma basis (note 4) following the capital raise and acquisition of the two Wellington office properties

Transactions

- Acquisition of 34 Shortland Street, Auckland in September 2020 for \$67.5m (including an allowance of between \$3-\$3.5m for certain capital upgrades (note 5))
- SPL has an unconditional agreement to purchase an office building at 215 Lambton Quay, Wellington for \$84.5m, with settlement expected to occur on 30 November 2020
- SPL has a conditional agreement to purchase an office building at 20 Customhouse Quay, Wellington for \$228m, and if the acquisition proceeds, it is expected to settle on or before 21 December 2020 (see further information below)
- Sale of three large format retail properties to Investore Property Limited (Investore) for \$140.75m, settled 30 April 2020
- SPL is in the process of upgrading its existing office building at 22 The Terrace, including undertaking seismic strengthening work, refurbishment of all floors and amenities, and installation of a number of sustainability initiatives. In addition, SPL is planning a number of capital upgrades and improvement projects for 34 Shortland Street over the short to medium term to add value to this recent acquisition

Capital Management – SPL

- \$135m of banking facilities expiring June 2021 were extended by three years to June 2024 in April 2020. Next debt facility maturing is \$170m in August 2022 (FY23)
- Stride has also arranged an additional \$100m 3-year debt facility to support growth, which is committed and will become available subject to the settlement of 20 Customhouse Quay and finalisation of facility documentation
- Following the capital raise and contracted acquisitions, SPL's Loan to Value Ratio (LVR) is expected to be 30.3% (note 6) and SPL is expected to have \$139m of undrawn bank facilities available or \$115m after committed developments at 34 Shortland Street, Auckland, and 22 The Terrace, Wellington

Products

- **Investore Property Limited (Investore):** Investore has delivered strong results during the six months to 30 September 2020, with profit after income tax of \$91.0m, up \$80.1m from the six months to 30 September 2019 (HY20), largely due to a strong revaluation movement which is testament to Investore's singular focus on large format retail property. Investore has also undertaken a number of key transactions, including issuing \$105m of new shares and \$125m of 7-year listed bonds at a fixed interest rate of 2.4% per annum. Investore's portfolio has also grown strongly in the six months to 30 September 2020, with Investore's portfolio having a value (note 7) of \$980.3m as at 30 September 2020
- **Industre Property Joint Venture (Industre):** Stride's latest product, Industre, commenced operations from 1 July 2020. SPL and its joint venture partner, a group of international institutional investors through a special purpose vehicle and advised by J.P. Morgan Asset Management, have strong growth ambitions for Industre. Since commencement, the joint venture has acquired four additional industrial properties for a net purchase price of \$45.5m, with settlement expected to occur on the acquisition of 439 Rosebank Road, Avondale (\$8m purchase price) in the next few months. In addition, Industre has completed the development of two industrial facilities for Waste Management - Selwood Road, Henderson, Auckland (October 2020) and Wickham Street, Hamilton (November 2020), each with 25-year leases
- **Diversified NZ Property Trust (Diversified):** Diversified's portfolio has a value of \$460.2m as at 30 September 2020, representing a \$19.1m or 4.6% net valuation increase for HY21. On behalf of Diversified, SIML has completed COVID-19 rental relief arrangements for approximately 70% of tenants resulting in a weighted average lease extension of 10 months across all COVID-19 relief arrangements

COVID-19 Update

- Stride has worked hard to minimise the financial impact of COVID-19 on its business, and based on rent abatement arrangements agreed to date, as well as expected performance for the remainder of FY21, Stride estimates the financial impact from COVID-19 will be a reduction in distributable profit of between (\$0.2m) and (\$1.9m), which is lower than the estimate stated in the FY20 Annual Report
- COVID-19 rental relief arrangements have been agreed across approximately 81% of Stride's office and retail shopping centre portfolios. In many cases this has involved providing rental abatement and deferrals in return for an extension on the lease term or an early renewal of the lease, resulting in a weighted average lease extension of 10 months across all COVID-19 deals

Acquisition of 20 Customhouse Quay, Wellington

SPL has a conditional agreement to acquire a premium grade office asset located at 20 Customhouse Quay, Wellington, for \$228 million. This building was completed in 2018, and is a unique office building, being base isolated, built to very high seismic standards, and is located in a prime central location, with a 5 Green Star NZ – Office Design rating.

The initial passing yield on acquisition is 4.5%, and the property has a WALT of 12.6 years and is 100% occupied. This transaction aligns with Stride's office strategy to grow assets within the core Auckland and Wellington CBD markets.

Following the acquisition of this property and the acquisition of 215 Lambton Quay, Wellington (which acquisition is unconditional and expected to settle on 30 November 2020):

- The weighted average lease term of Stride's office and retail portfolio will be 5.8 years. The weighted average lease term of Stride's portfolio on a look through basis (note 8) will be 7.2 years;
- Stride's office and retail portfolio will be weighted (by value) 66% to office and 34% to retail shopping centres;
- Stride's portfolio exposure on a look through basis (note 8) by value is 42% office, 22% industrial, 23% retail shopping centres and 13% large format retail.

This acquisition remains conditional on completion of due diligence by Stride and successful completion of the placement component of the Offer announced today. If this transaction becomes unconditional, the acquisition is expected to settle on or before 21 December 2020.

Capital Raising

The Offer comprises:

- **Placement:** A placement of \$180 million to eligible investors. The placement price will be set through a bookbuild process during the course of today, with an underwritten floor price of \$2.10, which represents a discount of 8.7% to the last close on 24 November 2020 (\$2.30) and a 9.1% discount to the volume weighted average price for Stride stapled securities over the preceding five business days (\$2.31). Any stapled securities not taken up in the placement will be underwritten by Goldman Sachs New Zealand Limited at the underwritten floor price, pursuant to the terms of a placement agreement entered into with Stride today.
- **Share Purchase Plan:** A Share Purchase Plan (SPP) offer to all eligible shareholders with a registered address in New Zealand, under which each eligible shareholder can apply for up to \$50,000 worth of new stapled securities. Stride is seeking to raise \$40 million under the SPP, with the discretion for Stride to accept additional applications. The issue price under the SPP will be the lower of (a) the price paid by investors in the placement and (b) the price that is a 2.5% discount to the volume weighted average market price for Stride stapled securities over the five business days prior to and including the closing of the SPP offer. The SPP has been structured to be as fair as possible to all existing shareholders, and enables almost all shareholders to participate through either the placement or the SPP (except where restricted due to legal constraints), and should scaling be required, it will be by reference to existing shareholdings as at 5.00pm on 24 November 2020. The SPP offer opens on 30 November 2020, with the offer document and application form in respect of the SPP offer also being available from that date.

Proceeds from the capital raising will be used to partly fund the acquisitions of 215 Lambton Quay and 20 Customhouse Quay, and to capitalise SIML. Pro forma (note 6) gearing after the capital raising and acquisitions is expected to increase slightly to 30.3% (from 29.0% as at 30 September 2020).

The new stapled securities issued under the Offer will be eligible to participate in any future dividends, including the dividend for the quarter ended 30 September 2020, which is expected to be declared on 30 November 2020 and paid on 22 December 2020.

Stride is undertaking the Offer in reliance on the NZX Regulation Class Waiver and Ruling in relation to section 4 of the NZX Listing Rules dated 30 September 2020. The proceeds raised under the Offer assist in providing diversification within Stride's portfolio and maintaining prudent levels of gearing, allowing Stride to be better placed to absorb any impacts of a COVID-19 related recession.

For additional information in relation to the Offer, please refer to the presentation attached to this announcement.

The SPL and SIML Boards look forward to investors' support for the Offer.

Looking forward

- Stride will continue to pursue growth in its investment management business, including through the establishment of a group of Products in specific commercial property sectors, while also supporting the growth of its current Products, in line with the activity seen in the first half of FY21
- Contributing to this growth are the proposed acquisitions of the office properties at 215 Lambton Quay, Wellington, and 20 Customhouse Quay, Wellington
- The Offer launched today will be used to partly fund these acquisitions
- Stride has balance sheet capacity to continue to grow its portfolio as opportunities arise
- The Stride Boards confirm they currently anticipate that the combined dividends per share for SPL and SIML for FY21 will be 9.91 cps, assuming no further significant restrictions or deterioration in economic activity due to COVID-19

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 ordinary share in SIML and one ordinary 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 measure and consists of profit/(loss) before income tax, adjusted for determined non-recurring and/or non-cash items, share of profits in equity-accounted investments, dividends received from equity-accounted investments and current tax. Further information, including the calculation of distributable profit and the adjustments to profit before income tax, is set out in note 4.2 to the consolidated interim financial statements for the six months ended 30 September 2020.
3. Excludes lease liabilities. Includes Stride's 62.4% interest in the unincorporated component of the Industrie Property Joint Venture. For more information, see note 3.2 to the consolidated interim financial statements. Includes value of Level 12, 34 Shortland Street, which houses Stride's head office, and is shown in the consolidated interim financial statements as property, plant and equipment. Due to COVID-19, the investment property valuations for five properties in the SPL portfolio 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.

4. Assuming \$220m of additional equity at an issue price of \$2.10 per stapled security, being the floor price of the Placement, equating to an additional 104.8m stapled securities issued.
5. SPL paid \$66.4m for the property at 34 Shortland Street, including \$2.25m for building upgrades, and has committed to a further \$0.8m for additional upgrades.
6. As at 30 September 2020, as if the following transactions had completed as that date: (1) the capital raise, assuming gross proceeds to SPL of \$215m (with SIML receiving \$5m gross proceeds); settlement of the contracted acquisitions (comprising the acquisition of 215 Lambton Quay, Wellington, which acquisition is unconditional and expected to settle on 30 November 2020 and the acquisition of 20 Customhouse Quay, Wellington, which acquisition remains conditional on completion of due diligence and successful completion of the Placement announced today); and (3) a new bank facility of \$100m which was secured in November 2020 was in place as at that date.
7. Investore's portfolio value excludes: (1) \$7.0m of seismic works to be completed by SPL on the three large format retail properties acquired by Investore from SPL on 30 April 2020, and the balance of the rental guarantee of \$0.4m from SPL; and (2) lease liabilities. The valuation of the property at 35 MacLaggan Street, Dunedin, remains subject to 'material valuation uncertainty' due to the expiry of the tenant lease in July 2021.
8. Calculated taking into account SPL's directly owned properties plus its indirect interest through its shareholding in each of the Stride products, Industrie Property Joint Venture, Investore Property Limited and Diversified NZ Property Trust.

Ends

Attachments provided to NZX:

- Stride Property Group – HY21 Interim Results and Capital Raise - 25/11/20
- Stride Property Group – HY21 Interim Report – 25/11/20
- Stride Property Group – HY21 Interim Results and Capital Raising Presentation– 25/11/20
- Stride Property Group – NZX Results Announcement – 25/11/20
- Stride Property Group – Corporate Action Notice - 25/11/20

For further information please contact:

Tim Storey, Chairman, Stride Investment Management Limited / Stride Property Limited
Mobile: 021 633 089 - Email: tim.storey@strideproperty.co.nz

Philip Littlewood, Chief Executive, Stride Investment Management Limited
Mobile: 021 230 3026 - Email: philip.littlewood@strideproperty.co.nz

Jennifer Whooley, Chief Financial Officer, Stride Investment Management Limited
Mobile: 021 536 406 - Email: jennifer.whooley@strideproperty.co.nz

Louise Hill, General Manager Corporate Services, Stride Investment Management Limited and Company Secretary of Stride Property Group
Mobile: 0275 580 033 - Email: louise.hill@strideproperty.co.nz

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.