

PFI ANNOUNCES RECORD INTERIM RESULTS

The PFI management team will present the results via live webcast from 10am NZT on 20 August 2021. To view and listen to the webcast, please visit <https://edge.media-server.com/mmc/p/w955frcv>. Anyone wishing to participate in the webcast (for example, to ask a question) must pre-register for the conference call at <https://apac.directeventreg.com/registration/event/9886819>. Upon registering, participants will be provided with participant dial-in numbers, a passcode and a unique registrant ID. In the 10 minutes prior to the call start time, you will need to use the conference access information provided in the email received at the point of registering, in addition to opening the webcast (using the details above).

Highlights

- **Record interim result:** fair value gains on properties of \$248.2 million contributing to a record interim profit after tax of \$273.5 million, Funds From Operations (FFO)¹ earnings up 12.1% from the prior interim period to 5.36 cents per share, Adjusted Funds From Operations (AFFO) earnings up 24.3% from the prior interim period to 4.71 cents per share, interim cash dividends of 3.60 cents per share
- **Robust balance sheet:** net tangible assets up 22.9% to 271.4 cents per share, gearing of 30.0%, bank facilities refinanced and increased post balance date, over \$100 million of available liquidity, proceeds from the contracted divestment of Carlaw Park will provide further funding flexibility
- **Quality portfolio of scale:** portfolio value in excess of \$2 billion, weighted average lease term of 4.79 years, occupancy of 99.5%, just 1.1% of contract rent due to expire in the second half of 2021
- **Strategy refreshed and progressed:** strategy refresh announced, \$138.3 million invested in core industrial property, divestment of Carlaw Park for \$110.0 million secured, \$3.5 million capex investment in bulk-store facilities near completion, brownfield opportunities progressed
- **Increased dividend targeted and revised dividend policy:** strategy progression, combined with positive results for the year to date and buoyant market conditions, result in confirmation of targeted 2021 dividends at the upper end of the guidance range of 7.90 cents per share, dividend policy revised, dividends will reflect 90% to 100% of AFFO on a rolling three-year historic average basis

Property for Industry Limited (PFI, the Company) today announced record interim results for the six months ended 30 June 2021.

“PFI’s significant and quality portfolio, execution of the Company’s refreshed strategy, and buoyant market conditions have generated a record interim result. Our balance sheet is in great shape, and we have high levels of liquidity to continue to execute on our priorities and to deliver strong, stable returns.” says PFI Chief Executive Officer, Simon Woodhams.

Record interim result

Profit after tax for the interim period totalled \$273.5 million (54.46 cents per share), up from \$15.6 million (3.14 cents per share) in the prior interim period. A \$248.2 million fair value gain on investment properties, as compared to a \$7.8 million fair value loss in the prior interim period, was the main contributor to the Company’s record interim profit.

Net rental income of \$45.9 million was up \$4.3 million or 10.4% on the prior interim period, with positive leasing activity and acquisitions both contributing \$2.6 million each to this increase.

¹ Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO) are non-GAAP financial information and are common property investor metrics, which have been calculated in accordance with the guidelines issued by the Property Council of Australia. Please refer to Appendix 1 for more detail as to how these measures were calculated.

This increase in net rental income has contributed to an increase in FFO earnings to 5.36 cents per share, up 0.58 cents per share or 12.1% ahead of the prior interim period. AFFO earnings of 4.71 cents per share were up 0.92 cents per share or 24.3% when compared to the prior interim period, with a reduced level of maintenance capex also contributing to that increase.

That being the case, the PFI Board resolved to pay a second quarter interim cash dividend of 1.8000 cents per share. The dividend will have imputation credits of 0.6088 cents per share attached and a supplementary dividend of 0.2763 cents per share will be paid to non-resident shareholders. The record date for the dividend is 27 August 2021, and the payment date is 7 September 2021. The dividend reinvestment scheme will operate with a discount of 2%.

The second quarter dividend will take cash dividends for the interim period to 3.60 cents per share, in line with the prior interim period, resulting in an FFO dividend pay-out ratio of 74% (H1 2020: 81%) and an AFFO dividend pay-out ratio of 84% (H1 2020: 102%, refer Appendix 3).

Robust balance sheet

Net tangible assets (NTA) per share increased by 50.5 cents per share or 22.9% from 220.9 cents per share as at the end of 2020 to 271.4 cents per share as at the end of the interim period, with the increase in the fair value of investment properties contributing 49.3 cents per share to this increase.

In April, the Company refinanced its \$100 million liquidity facility with a seven-year \$125 million term loan facility from the Commonwealth Bank of Australia, New Zealand Branch (CBA). Shortly after the end of the interim period, in July, the Company's \$300 million syndicated bank facility was also refinanced, and the Company's facilities were increased by a further \$100 million with a two-year loan facility from the Bank of New Zealand (BNZ).

Post the July refinancing, the weighted average term to expiry of PFI's bonds and bank facilities increased by approximately one year to 4.4 years², with almost \$120 million of available liquidity. The Company also ended the interim period with gearing³ of 30.0% and an interest cover ratio⁴ of 4.5 times.

Chief Finance and Operating Officer, Craig Peirce notes: "High levels of liquidity from a diverse range of sources, and the proceeds from the contracted divestment of Carlaw Park, provide PFI with funding flexibility to execute on our strategy."

Significant quality portfolio

Portfolio snapshot as at	30 June 2021	31 December 2020	30 June 2020
Book value	\$2,025.3m	\$1,631.5m	\$1,470.0m
Number of properties	96	94	93
Number of tenants	148	148	140
Contract rent	\$96.3m	\$89.8m	\$83.6m
Occupancy	99.5%	99.4%	99.0%
Weighted average lease term	4.79 years	5.28 years	5.28 years
Auckland property	85.9%	84.6%	84.2%
Industrial property	92.9%	91.7%	91.0%

² As at the day of refinancing, being 2 July 2021.

³ That is, total borrowings as a percentage of the most recent independent valuation of the property portfolio. Covenant: 50%.

⁴ That is, the ratio of interest expense and bank fees to operating earnings excluding interest expense and bank fees. Covenant: 2 times.

Further to the valuation announcement in June, PFI recorded an interim increase in the value of its property portfolio from independent valuations of \$240.3 million or 14.5% to \$2,025.3 million. A \$7.9 million write up of the Company's Carlaw Park properties to the contracted sale price of \$110.0 million brings total fair value gains on properties to \$248.2 million for the interim period. Around 90% of the valuation outcome was due to movements in yields or cap rates. As a result of portfolio and valuation activity, PFI's passing yield firmed from 5.53% to 4.75%. An independent market rental assessment of the entire portfolio was completed as part of the valuation process, this assessment estimates that PFI's portfolio is around 3.0% under-rented.

Around 17,500 square metres of PFI's portfolio was leased during the interim period to 10 new and existing tenants for an average increase in term of 4.4 years. Five new leases and five renewals were secured, and across these leasing transactions average leasing costs of two-thirds of a month per year of term were observed.

Rent reviews were completed on 66 leases during the interim period, resulting in an average annual uplift of 3.1% on ~\$32.6 million of contract rent. Six market rent reviews on ~\$2.6 million of contract rent delivered an annualised increase of 1.9% over an average review period of 5.7 years.

At the end of the interim period the Company's portfolio was 99.5% occupied, and commercial terms have been agreed for all leases that are due to expire in the second half of 2021 (1.1% of contract rent).

The leasing market for industrial property remains robust, with vacancy still at historically low levels. CBRE reports⁵ Auckland Prime industrial vacancy is at just 1.2%, with Secondary industrial vacancy at 1.8%. CBRE predict⁵ industrial rental growth over the next five years to average 3.9% per annum for prime properties and 3.7% per annum for secondary properties, up from 2.5% and 2.3% respectively in December 2020.

Strategy refreshed and progressed

At the Company's annual meeting in May, Simon Woodhams outlined a refreshed strategy for PFI, with four areas of focus: core generic assets, brownfield opportunities, specialised assets and assets held for sale. The first half of 2021 has been a busy and successful period for all four areas of strategic focus.

The purchase of a "core generic" asset located at 670-680 Rosebank Road in Avondale, Auckland for \$39 million was completed in January 2021. PFI already owned neighbouring industrial properties on Rosebank and Patiki Roads, and when combined with these sites, an industrial estate of 8.6ha now valued in excess of \$125 million was created, just 250 meters from the North Western motorway system. This was a strategic acquisition that presents PFI with a longer-term opportunity to create value by integrating the property with the Company's existing holdings.

In May, PFI acquired a prime industrial property located at 44 Noel Burnside Road in Wiri, Auckland for \$91.7 million. The property is fully leased on a triple-net basis for an initial two-year period. Because of the shorter lease, and the potential for an expiry in two years, the PFI team are currently viewing this as a "brownfields opportunity". Once a long-term lease is secured, this property would then move into the "core generic" classification.

Commercial terms have been agreed with a tenant for the Company's \$9 million build-to-lease development at 47 Dalgety Drive in Wiri, which is due for completion in the first quarter of 2022. The PFI team have also advanced redevelopment plans for the Company's Bowden Road site in Mount Wellington, where an upcoming lease expiry will provide PFI with a significant redevelopment opportunity.

⁵ CBRE "Auckland Property Market Outlook", June 2021

Works also progressed on PFI's specialised assets, with the construction of a new \$3.5 million breeze-way canopy helping to improve the environmental performance of the properties at the Company's Hewletts Road estate. Following the interim valuations, this estate is now valued at more than \$130 million.

PFI has two "assets held for sale"⁶. The divestment of the Company's Carlaw Park assets for \$110 million was secured in February, and settlement is expected towards the end of 2021. Seismic strengthening works at PFI's Shed 22 in Wellington are underway, with this property to be divested following the completion of these works.

On completion of these planned divestments, PFI will have a pro-forma loan to value ratio of 25.4%, the portfolio will be 98.8% industrial and 85.6% of portfolio will be located in Auckland, positioning the Company to benefit from trends supporting long-term growth, such as e-commerce.

Increased dividend targeted and revised dividend policy

On 6 May, the Company noted that results for the year to date, combined with the positive impact of the acquisition of 44 Noel Burnside Road, meant that the PFI Board was reviewing both the dividend policy and total cash dividends for the 2021 financial year.

Progression of the Company's strategy, combined with positive results for the year to date and buoyant market conditions, now mean that the PFI Board expects to declare cash dividends of 7.90 cents per share for the 2021 financial year, at the upper end of the guidance range of 7.85 - 7.90 cents per share.

Cash dividends of 7.90 cents per share are anticipated to result in a dividend pay-out ratio below 80% of forecast FFO and 95% of forecast AFFO. Accordingly, the PFI Board has revisited the Company's dividend policy.

To ensure PFI can continue to grow dividends, whilst at the same time pursuing strategic and value enhancing initiatives, the PFI Board has decided to amend the Company's dividend policy to distribute between 90% to 100% of AFFO on a rolling three-year historic average basis. A copy of the revised dividend policy can be found in Appendix 4.

Cash dividends of 7.90 cents per share are anticipated to result in a dividend pay-out at the mid-point of this revised dividend policy range of 90% to 100% of AFFO on a rolling three-year historic average basis.

This guidance is subject to there being no material adverse changes in conditions or unforeseen events, including no material tenant failures or further material COVID-19 restrictions, other than those in place as at the date of this announcement.

Closing

Simon Woodhams concludes: "Industrial property has continued to perform. Occupier and investor demand for industrial property remains robust, supported by continued low levels of vacancy and projected rental growth. PFI's portfolio and strategy are benefiting from these dynamics and have produced record interim results."

ENDS

⁶ Please note that the definition of assets held for sale in the interim financial statements excludes Shed 22 as this asset does not meet the definition of assets held for sale under NZ GAAP.

ABOUT PFI & CONTACT

PFI is an NZX listed property vehicle specialising in industrial property. PFI's nationwide portfolio of 96 properties is leased to 148 tenants.

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Attachments

NZX Form – Results Announcement
NZX Form – Distribution Notice
Interim Results Presentation
Interim Financial Statements

Appendices

Appendix 1 – FFO and AFFO Calculations

Funds / Adjusted Funds From Operations (unaudited, \$000, unless noted)	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	273,542	15,648
<i>Adjusted for:</i>		
Fair value loss / (gain) on investment properties	(248,196)	7,803
Material damage insurance income	(540)	(2,151)
Loss / (gain) on disposal of investment properties	4	14
Fair value loss / (gain) on derivative financial instruments	(4,912)	1,023
Amortisation of tenant incentives	1,626	1,374
Straight lining of fixed rental increases	(826)	(999)
Deferred taxation	6,210	1,133
Other	(1)	3
Funds From Operations (FFO)	26,907	23,848
FFO per share (cents)	5.36	4.78
Maintenance capex	(1,432)	(2,169)
Incentives and leasing fees given for the period	(2,082)	(1,985)
Other (incl. reversal of accounting entries for COVID-19 abatement and deferral deals)	261	(785)
Adjusted Funds From Operations (AFFO)	23,654	18,909
AFFO per share (cents)	4.71	3.79

Appendix 2 – FFO and AFFO Compared to H1 2020

	FFO (CPS)	Change	AFFO (CPS)	Change
H1 2020	4.78	+0.58 CPS or +12.1%	3.79	+0.92 CPS or +24.3%
H1 2021	5.36		4.71	

Appendix 3 – FFO and AFFO Dividend Pay-out Ratios

	2021	2020
Full year dividends per share (cents, 2021 = guidance, 2020 = actuals)	7.90	7.70
Pro-rata share of full year dividends per share (cents, 2021 = 50% of guidance, 2020 = 50% of actuals)	3.95	3.85
FFO dividend pay-out ratio (%)	74%	81%
AFFO dividend pay-out ratio (%)	84%	102%

Appendix 4 – Revised Dividend Policy

PFI's dividend policy is to distribute between 90% to 100% of Adjusted Funds From Operations (AFFO) on a rolling three-year historic average basis.

AFFO is a non-GAAP financial measure and a common investor metric. It is calculated in accordance with the guidelines issued by the Property Council of Australia.

To provide sufficient flexibility for dividends to be maintained or normalised despite variations in AFFO, the pay-out ratio may be decreased or increased from time to time.

In fixing a dividend for any period, consideration will be given to, amongst other things, the Group's current and forecast financial performance and position, general business and financial conditions, and the solvency requirements of the Companies Act.

Dividends are paid quarterly, the payment of dividends is not guaranteed by the Group, and the Group's dividend policy may change from time to time.