PFI ANNOUNCES ANNUAL RESULTS

The PFI management team will present the results via live webcast from 10am NZT on 20 February 2023. To view and listen to the webcast, please visit https://edge.media-server.com/mmc/p/tgtfcjtm. Anyone wishing to participate in the webcast (for example, to ask a question) must pre-register for the conference call at https://register.vevent.com/register/BI3d1bcec87ff848fa9dce0e425ad8d27d. Upon registering, participants will be provided with participant dial-in numbers and a personal PIN. 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

- **Steady underlying results:** Fair value losses on properties of $56.7 million or 2.6% contributing to a loss after tax of $13.9 million, Funds From Operations (FFO) [1] earnings down 7.8% from the prior year to 10.21 cents per share, Adjusted Funds From Operations (AFFO) earnings down 5.0% from the prior year to 8.83 cents per share, 2022 cash dividends of 8.10 cents per share, up 2.5% on 2021 dividends
- **Brownfield opportunities set to commence:** Existing tenant secured to activate first stage of Springs Road redevelopment, $140 million of development spend now committed across two sites, all buildings targeting a Five Green Star rating
- **Sustainability programme advanced:** Sustainability strategy refreshed, R22 refrigerant gas replacement project completed, third voluntary Task Force on Climate-Related Financial Disclosures (TCFD) report filed, undertaking sustainable refurbishments
- **Portfolio delivering strong rental growth:** $62.8 million of contract rent reviewed during 2022 delivering an average annualised uplift of 4.0%, 15.0% of contract rent leased during 2022 at an average of 11.8% above previous contract rents
- **Resilient industrial portfolio of scale:** $2.12 billion industrial property portfolio ~11% under-rented, net tangible assets confirmed at 298.8 cents per share
- **Proactive and conservative capital management:** 3.6 million shares acquired through share buyback programme, $100 million BNZ facility refinanced, USPP facility established, $121 million of available bank liquidity, gearing comfortable at 28.5%

Property for Industry Limited (PFI, the Company) today announced a steady underlying result for the year ended 31 December 2022.

"We continue to deliver stable cash returns for investors, and the team have made good use of the drivers available to them through our clear strategy to divest sensibly, while positioning the Company to continue to grow in the years ahead" says PFI Chief Executive Officer, Simon Woodhams.

Steady underlying results

PFI generated a loss after tax for the year of $13.9 million (loss of 2.70 cents per share), down from a profit of $452.8 million (profit of 89.97 cents per share) in the prior year. A $56.7 million fair value loss on the independent valuation of the Company's property portfolio, as compared to a $392.5 million fair value gain in the prior year, was the main contributor to this reduction. A $29.1 million impairment of the goodwill which arose on the merger with Direct Property Fund in July 2013 was recorded at the end of the interim period, and this also contributed to the full year loss.

[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.

At an operating level, net rental income[2] of $95.6 million was up $1.4 million or 1.4% on the prior year, with growth on the stabilised portion of the portfolio of 2.4%. Offsetting this, interest expense and bank fees rose by $4.5 million on the prior year, this increase being the result of an increase in the Company's weighted average cost of debt to 4.77% as at the end of 2022 from 3.81% as at the end of 2021, combined with a $57 million or 10% increase in average borrowings from net acquisition and divestment activity.

As a result, FFO earnings were down 7.8% from the prior year to 10.21 cents per share, whilst AFFO earnings were down by 5.0% to 8.83 cents per share (prior year: 9.29 cents per share).

In line with PFI's dividend policy to distribute between 90% to 100% of AFFO on a rolling three-year historic average basis, the PFI Board today resolved to pay a fourth quarter final cash dividend of 2.65 cents per share. The dividend will have imputation credits of 0.46 cents per share attached and a supplementary dividend of 0.21 cents per share will be paid to non-resident shareholders. The record date for the dividend is 27 February 2023, and the payment date is 9 March 2023. The dividend reinvestment scheme will not operate for this dividend.

The fourth quarter dividend will take cash dividends for the year to 8.10 cents per share, up 2.5% from 2021 dividends, resulting in an FFO dividend pay-out ratio of 79% (2021: 71%) and an AFFO dividend pay-out ratio of 92% (2021: 85%). The dividend pay-out ratio is 91% of AFFO on rolling three-year historic average basis (2021: 92%, refer Appendices 2 and 3 for all pay-out ratio calculations).

Brownfield opportunities set to commence

The Company has around $216 million or 10% of the portfolio held in properties where there is an opportunity for redevelopment, and these properties are referred to as brownfield opportunities. During the year, the PFI team made the most of market conditions to generate proceeds from the divestment of a range of properties to be recycled into two such opportunities.

The divestments of 39 Edmundson Street in Napier, 330 Devon Street East and 20 Constance Street, both in New Plymouth, all settled during the year, whilst the divestment of 8A & 8B Canada Crescent in Christchurch is due to settle early-April 2023. Combined, these properties will generate gross proceeds of $33.4 million and have been sold at an average of 8% above their most recent book values.

During 2022, PFI committed to the extensive redevelopment of the Company's 3.9 hectare Bowden Road site in Mount Wellington and the initial phase of the redevelopment of the Company's 10.4 hectare Springs Road site in East Tamaki. Across both sites, 43,700 square metres of warehousing, 2,400 square metres of offices, 7,900 square metres of canopies, 16,000 square metres of yard and 280 car parks will be constructed over an 18-month period from April 2023.

Combined, these projects have an estimated total incremental cost of around $140 million, and once complete, are expected to be accretive to both earnings and net tangible assets on a per share basis. Consistent with PFI's climate commitments, all facilities will target Five Green Star ratings.

Sustainability programme advanced

"Our decision to target Five Green Star ratings in our upcoming Bowden and Springs Road redevelopments puts us at the leading edge of the industrial sector in New Zealand," says Chief Finance and Operating Officer, Craig Peirce. "There are only a handful of buildings in New Zealand currently at this level, and it's exciting to be embarking on these projects with sustainability firmly at their core."

[2] Refer note 2.3 of the financial statements, on page 66 of the annual report. Excludes service charge income recovered from tenants and management fee income.

Tangible progress was made across a wide variety of areas in the Company's sustainability programme, including refreshing our sustainability strategy, completing the R22 refrigerant gas replacement project, filing our third voluntary Task Force on Climate-Related Financial Disclosures (TCFD) report, creating a strategy for solar installations, and undertaking sustainable refurbishments.

You can learn more about sustainability at PFI on pages 25 to 43 of the Company's Annual Report, released today.

Portfolio delivering strong rental growth

Portfolio snapshot as at	31 December 2022	31 December 2021
Book value	$2,117.2m	$2,168.9m
Number of properties	94	97
Number of tenants	132	136
Contract rent	$98.2m	$95.6m
Occupancy	100.0%	100.0%
Weighted average lease term	5.08 years	5.40 years
Auckland property	83.2%	81.8%

The strong levels of rental growth reported for the first half of 2022 continued into the second half of the year.

Rent reviews were completed on 102 leases during the year, resulting in an average annual uplift of 4.0% on ~$62.8 million of contract rent. CBRE forecast[3] industrial rental growth over the next five years to average 5.5% per annum for prime properties and 3.5% per annum for secondary properties.

Around 104,000 square metres or 15% of PFI's portfolio by rent was leased during the year to seven new and 26 existing tenants for an average increase in term of 5.0 years. Across these leasing transactions average leasing costs of 0.1 months per year of term were negotiated and a positive re-leasing spread of around 12% on annual passing rents was achieved.

Combined, 81% of contract rent was reviewed, varied, or leased during 2022.

At the end of the year, the Company's portfolio was fully occupied, and 7.8% of contract rent is due to expire in 2023, with the largest single expiry totalling just 0.9% of contract rent. Excluding brownfield opportunities, 2023 and 2024 expiries are 4.4% and 10.6% respectively, in line with prior periods. The leasing market for industrial property remains strong, with vacancy still at historically low levels. CBRE reports[3] that Auckland industrial vacancy is just 0.1% for prime properties and 0.7% for secondary properties.

At an operational level, the project to bring facilities management in-house continued to gather momentum during the year. "Bringing facilities management in-house will ensure PFI provides integrated, proactive and sustainable property solutions that add value for our tenants and shareholders," says Simon Woodhams. During the second half of the year, the PFI team have been updating systems and processes to provide a seamless experience for tenants, whilst working with contractors to ensure a smooth transition.

Resilient industrial portfolio of scale

PFI recorded an annual decrease in the value of its property portfolio from independent valuations of $56.7 million or 2.6% to $2,117.2 million. Realised rental growth was estimated to have added around

[3] CBRE "Auckland Property Market Outlook", December 2022, includes 2022 rental growth.

1.3% to the value of the portfolio, with the remainder of the valuation outcome due to an increase in yields or cap rates as a result of the higher interest rate environment. As a result of portfolio and valuation activity, PFI's passing yield softened from 4.41% to 4.62%. 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 11% under-rented.

Net tangible assets (NTA) per share decreased by 4.6 cents per share from 303.4 cents per share as at the end of 2021 to 298.8 cents per share as at the end of 2022, with the impact of the decrease in the Company's property portfolio partially offset by increases in the value of derivatives and retained earnings.

Proactive and conservative capital management

"2022 has been an active year for capital management," says Craig Peirce. "We've managed our capital base by running a share buyback programme, extending our Bank of New Zealand loan facility, and entering into a new USPP facility."

With the Company's shares trading at a 21% discount to NTA at the time, PFI announced that it would undertake an on-market share buyback programme (the Buyback Programme) on 25 May 2022. PFI has since acquired and subsequently cancelled 3.6 million shares at an average cost of $2.43 per share, compared to net tangible assets per share as at 31 December 2022 of $2.99.

With $140 million of Five Green Star development spend committed across both Bowden and Springs Road, the decision was made to pause the Buyback Programme indefinitely on 19 December 2022, as the Company has assessed these developments as being a superior use of its capital.

PFI also refinanced its $100 million loan facility from the Bank of New Zealand during the year, extending the facility expiry date by one year from 2 July 2023 to 2 July 2024. The weighted average term to expiry of PFI's bonds and bank facilities is 3.0 years and the Company has over $120 million of available bank liquidity as at the end of the year. An as-yet-unutilised US$250 million USPP facility established with Pricoa Capital Group, part of Prudential Financial, Inc. provides PFI with access to long-term funding, which the Company may use to finance investment opportunities, including upcoming brownfield opportunities.

Gearing at the end of the year stood at 28.5% (covenant: 50%) and the interest cover ratio was 3.4 times (covenant: 2 times) for the 2022 year. Interest rate hedging provides for an average of ~61% of the Company's debt to be hedged at an average fixed rate of ~2.38% for 2023, offering protection from rising interest rates.

Auckland flooding and Cyclone Gabrielle

2023 has started with several extreme weather events. "Our thoughts are with everyone who has been affected by the recent events, including the flooding in Auckland and the widespread devastation caused by Cyclone Gabrielle." says Simon Woodhams. "A small number of PFI's properties have suffered damage, and it is our expectation that any losses will be covered by insurance."

Closing

Looking to the year ahead, the PFI Board is guiding to 2023 cash dividends of between 8.10 and 8.30 cents per share, an increase of up to 2.5% on 2022 dividends. Higher forecast interest rates, including uncertainty around the pace and size of changes in the Official Cash Rate, have the potential to impact forecast earnings, and PFI's guidance assumes an average BKBM throughout 2023 of 5.25%. This guidance is also subject to upside risks from capturing sector rental growth and portfolio under renting, with additional downside risk from matters that are outside the Company's control, including tenant failure.

PFI's dividend policy is to distribute between 90% to 100% of AFFO on a rolling three-year historic average basis, and cash dividends of 8.10 to 8.30 cents per share are anticipated to result in a dividend pay-out at the bottom of this dividend policy range.

2022 has closed with the Company well placed for the coming years. With plenty of demand evident, and a clear path for development, PFI is confident that it can maintain momentum while meeting investor expectations. "We may not see the record results of 2021 in the short to medium term, but we are confident of delivering resilient results," says Simon Woodhams. "There will be challenges, but we are intent on meeting investor and occupier demands and delivering the stable returns that our investors look for."

ENDS

ABOUT PFI & CONTACT

PFI is an NZX listed property vehicle specialising in industrial property. PFI's nationwide portfolio of 94 properties is leased to around 132 tenants.

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Attachments

NZX Form – Results Announcement
NZX Form – Distribution Notice
Annual Results Presentation
Annual Report

Appendices

Appendix 1 – FFO and AFFO Calculations

Funds / Adjusted Funds From Operations **(unaudited, $000, unless noted)**	**For the year ended** **31 December 2022**	**For the year ended** **31 December 2021**
Profit (loss) and total comprehensive income after income tax attributable to the shareholders of the Company	**(13,944)**	**452,810**
Adjusted for:		
Fair value loss / (gain) on investment properties	56,735	(392,519)
Impairment of goodwill or intangibles	29,086	-
Material damage insurance income	-	(900)
Loss / (gain) on disposal of investment properties	(575)	(2,636)
Fair value loss / (gain) on derivative financial instruments	(18,536)	(12,271)
Amortisation of tenant incentives	2,799	3,243
Straight lining of fixed rental increases	(942)	(1,417)
Deferred taxation	(3,114)	9,412
Other	40	
Funds From Operations (FFO)	**51,549**	**55,723**
FFO per share (cents)	**10.21**	**11.07**
Maintenance capex	(3,870)	(3,946)
Incentives and leasing fees given for the period	(3,173)	(5,065)
Other (incl. reversal of accounting entries for COVID-19 abatement and deferral deals)	72	33
Adjusted Funds From Operations (AFFO)	**44,578**	**46,745**
AFFO per share (cents)	**8.83**	**9.29**

Appendix 2 – FFO and AFFO Dividend Pay-out Ratios

	2022	**2021**
Full year dividends per share (cents)	**8.10**	**7.90**
FFO dividend pay-out ratio (%)	**79%**	**71%**
AFFO dividend pay-out ratio (%)	**92%**	**85%**

Appendix 3 – Rolling three-year AFFO Dividend Pay-out Ratios

	2022	**2021**	**2020**	**2019**	**2018**
Rolling three-year AFFO dividend pay-out ratio (%)	**91%**	**92%**	**98%**	**99%**	**102%**