NZX announcement - 11 May 2023

Precinct Properties New Zealand Limited Annual General Meeting

3:00pm (New Zealand time), Thursday 11 May 2023

Online attendance at https://meetnow.global/nz

Chair's opening address

Tena Koutou Katoa,

Good afternoon everyone and welcome to the Precinct Properties Special Meeting of shareholders. I'm Craig Stobo, Independent Director and Chair.

Todays meeting is being held via the Computershare Online Meeting platform. It allows shareholders, proxies and guests to attend. Shareholders and proxies attending also have the ability to ask questions and submit votes online.

For participants attending today, if you have a question to submit during the live meeting, please select the Q&A tab on the right half of your screen anytime. Type your question into the field and press send. Your question will be immediately submitted. Should you require any assistance, you can type your query and one of the Computershare team will assist with the chat function and reply to your query. Alternatively, you can call Computershare on 0800-650-034.

Please note that while you can submit questions from now on, I will not address them until the relevant time in the meeting at the end of the presentations. Please also note that your questions may be moderated or if we receive multiple questions on one topic, stapled together.

While we will try to get through as many questions as possible, we do apologise in advance for any questions submitted online that we are unable to answer due to time constraints. In this case, questions will be followed up by email after the meeting.

Voting today will be conducted by way of a poll. In order to provide you with enough time to vote, I will shortly open the voting for the Special Resolution.

If you are eligible to vote at this meeting, you will be able to cast your vote online under the Vote tab. Once the voting has opened, the resolutions will allow votes to be submitted. To vote, simply select your voting direction from the options shown on screen. Your vote has been cast when the tick appears. To change your vote, simply select 'Change Your Vote'. You have the ability to change your vote, up until the time I declare voting closed. I now declare voting open on all items of business.

I would now like to introduce the members of the Board and executive team joining us today. We have, Anne Urlwin, Graeme Wong, Nicola Greer, Mark Tume, Chris Judd, Scott Pritchard, George Crawford and Richard Hilder.

We also have present with us representatives from our tax advisors, KPMG, legal advisors, Chapman Tripp and our registrar, Computershare.

Now moving to the agenda of today's meeting.

Meeting agenda

Today, there is one Special Resolution being put forward for shareholder approval.

Shareholders are being asked to consider, and if thought fit, pass the Special Resolution approving the amendments to the Constitution. This was detailed in the Notice of Special Meeting and Explanatory Memorandum sent to Shareholders. The meeting will then proceed to any questions you may have on the proposed change to a stapled structure.

Introduction

As previously announced in our interim results earlier this year, we have been actively considering the option of moving to a stapled structure to support further strategic growth opportunities whilst retaining Precinct's Portfolio Investment Entity (PIE) status. Precinct consequently provided an update together with its Notice of Special

Meeting last month in April detailing the proposal for Precinct to move to a stapled company structure.

The stapling comprises a proposal by Precinct to undertake a corporate restructuring whereby each shareholder will receive an equal number of shares in Precinct Properties Investments Limited ("Precinct Investments"), which is currently a wholly-owned subsidiary of Precinct. Once issued, these shares will be 'stapled' to the Precinct shares, meaning they can only be transferred or dealt with together.

In order to give effect to the stapling proposal, amendments need to be made to Precinct's constitution, which requires the approval of Shareholders by Special Resolution. The effect of the amendments to the constitution is that Precinct Shares and Precinct Investments Shares will be able to be stapled.

Precinct has continued to evolve over the past several years.

Following the internalisation of Precinct's management in 2021, Precinct's structure has evolved from being externally managed to an internally managed real estate investment company. Our strategy has broadened to now include the ability to partner with direct investors, offering the opportunity for joint investment into our assets and large-scale development projects.

Successful execution

To date, Precinct has successfully completed $1.6 billion of development of prime grade real estate, has operated Generator – Precinct's shared workspace business, established third party capital partnerships, formed a residential development platform, and most recently been selected as the preferred development partner for the Downtown Car park site in Auckland with exclusive negotiations continuing.

Precinct's capital partnerships are offering our business the opportunity to invest in a wider set of opportunities and utilise the strong market position that Precinct has. Precinct's capital partnering objectives include aligning itself with investors to co-invest in assets and developers and in so doing, enhancing earnings through improved return on equity, expanding capital management options and leveraging development opportunities to drive higher returns on capital.

Strategic focus

Looking ahead, Precinct's strategy continues to evolve as value-add opportunities continue to be identified, explored and executed. The Board and Management of Precinct believe our strategic focus is well aligned to deliver long-term outperformance.

Precinct's premium grade investment and development portfolio continues to underpin the business with high quality rental streams.

We remain a central city real estate investment company investing in high quality strategically located real estate.

Stapled Structure

As I've noted, given Precinct's strategic direction, future participation in a wider set of opportunities and growth in our capital partnerships, the proposed stapled structure will ensure the most robust company structure for Precinct. It allows flexibility for our business to continue to execute its strategy whilst retaining PIE status.

The proposed stapled structure, combined with strategy execution, is expected to provide significant long-term benefits to Precinct and its investors.

If Precinct is to retain its existing company structure, it will require Precinct to limit its strategic aspirations and opportunities. This means Precinct will be constrained in its ability to continue to grow its management and operational business or pursue new growth opportunities to adhere to PIE rules.

The next slide illustrates the proposed structure of Precinct Properties Group and managed entities.

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As you may be aware, a stapled structure is a common corporate structure often used in the real estate sector in New Zealand and Australia.

A stapled group comprises two listed parent companies whose shares are held by the same shareholders in the same equal proportions. The shares in each parent company are "stapled" together, meaning they can only be transferred or dealt with together. In this case, if shareholder approval is received, the underlying assets of the stapled group will be the same as immediately prior to stapling.

The diagram shown on this slide illustrates how Precinct has extended its business model and revenue streams. As a result, it now has income and investments that are classified as both qualifying and non-qualifying for the purposes of PIE eligibility as set out under the Income Tax Act.

As Precinct is a listed PIE under New Zealand's PIE regime, this regime benefits New Zealand investors as all dividends received can be excluded from their tax returns. To maintain PIE status, Precinct must continue to satisfy all the PIE eligibility requirements on an ongoing basis.

The loss of PIE status would have adverse consequences for all Shareholders. In this case, Precinct's future distributions (including the distribution of capital gain amounts that are currently able to be received by Shareholders without the need to pay further tax due to Precinct's current PIE status) will be taxable to Shareholders as dividends at personal tax rates of, currently up to 39%

Supporting Precinct to move to a stapled structure will allow for further growth while ensuring both Precinct and its investors retain the tax benefits available under New Zealand's PIE regime by remaining a listed PIE.

Moving to the next slide.

Precinct

Shareholding Post Proposed Stapling

The diagram here shows an illustrative 1,000 share shareholding in Precinct and how this shareholding will change after the proposed Stapling.

As you can see, a shareholder will retain 1,000 shares in Precinct and receive 1,000 shares in Precinct Investments. It is important we note that there is no change in the underlying assets represented by your shareholding.

As illustrated in the last slide, stapled securities are investments that are contractually or constitutionally bound together so that they cannot be separated. The essential nature of a stapled security is that one element cannot be transferred without the other element(s). If the Special Resolution is approved by Shareholders today, Precinct will implement Stapling and the Stapled Securities (i.e., Precinct Investments Shares and Precinct Shares) would form a single saleable unit that would trade on the NZX Main Board under a single ticker code.

Short term impact of proposed Stapling

Before we move to the longer-term benefits, I would like to take you through the short term impact of the proposed Stapling.

On this slide, we have an illustrative example of the impact of the Precinct Stapling on Shareholder returns. It shows the impact on the FY23 dividend payment under the current structure compared with a Stapled Structure. It is based on FY23 dividend guidance of 6.70 cents per share, and Precinct and Precinct Investment's tax rate is 28% for the FY23 year.

Approximately between $0 million and $3.1 million of additional non-qualifying income would be required to return each investor tax payer to the existing dividend amount. This could be made up of a combination of Precinct's different non-qualifying income sources which includes funds management services, development management services, capital participation in for-sale developments, and operating businesses.

Dependent on your personal tax rate, based on FY23 dividend guidance, dilution to dividends paid to Shareholders may range from 0.1% to 1.8%. However, as Precinct executes its strategy to grow its management services and operational businesses it is expected that Precinct's nonqualifying income which is derived directly or through its wholly-owned subsidiaries will grow. Therefore, it is expected that any short term dilution in dividend will be offset by the longer-term benefits of moving to a stapled structure.

Precinct's existing group structure does not provide the required flexibility for Precinct to create, manage and grow new opportunities and adhere to a PIE status. Stapling is therefore the preferred structure when compared to the current structure as it allows Precinct to continue to pursue growth in non-qualifying income and investments without the limitations imposed by the PIE eligibility rules.

In the illustrative example, the Stapling becomes advantageous to Shareholders with personal tax rates of greater than 28% once an additional dividend (net of taxes) of 0.12 cent per share or higher (attributable to non-qualifying income growth) is payable by Precinct Investments.

Long-term benefits

The proposed stapled structure, combined with strategy execution, is expected to provide significant long-term benefits to Precinct and its shareholders. These benefits include providing flexibility for Precinct to continue to execute its strategy, allows growth in Precinct's capital partnerships, enables future participation in a wider set of opportunities including residential and large-scale development projects, ensures Precinct is fit for purpose to enable sustainable growth while retaining PIE status, and is expected to improve Precinct's capital management position, return on equity and long term earnings for you, our shareholders.

If Stapling is not approved

If Shareholder approval is not obtained today, Precinct's Constitution will not be able to be amended. As a consequence, Stapling will not occur, Shareholders will not receive Precinct Investments Shares under the Distribution and Precinct will remain listed on the NZX Main Board but will not be a part of a Stapled group with Precinct Investments.

As I have mentioned earlier, retaining Precinct's existing company structure will require our business to limit its strategic aspirations as Precinct will be constrained in its ability to continue to grow its management and operational business or pursue new growth opportunities to adhere to PIE rules.

Summary

In summary, the active management of Precinct's high-quality portfolio is supporting both the evolution and execution of our strategy. A stapled structure will ensure Precinct is fit for purpose and able to continue to deliver on its strategy and growth potential, while ensuring Precinct retains its PIE status.

The Board believes Stapling is in the best interests of Precinct's Shareholders and will ensure long-term growth for Precinct and you, our Shareholders.

We look forward to progressing and executing on our strategic growth initiatives over the next 12 months. As we continue to work with our existing and future capital partners and deliver on Precinct's long-term strategy, having the support of you, our Shareholders is an integral part of achieving this. Thanks everyone for joining us today.

Huri noa i te whare

Tēnā Koutou

Tēnā Koutou

Tēnā Tātou Katoa

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