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Stride Property Group (NS)

NZX Announcement

IMMEDIATE — 25 November 2021

Stride Property Group HY22 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 2021 (HY22).

Stride is also commencing a capital raising (Offer) to raise up to \$120m, comprising an underwritten \$100m placement and a non-underwritten \$20m retail offer, with the ability to accept additional applications under each of the placement and the retail offer at Stride's discretion. The proceeds of the Offer will be used initially to reduce bank debt, reducing SPL's loan to value ratio to 29.8% (on a pro forma basis as at 30 September 2021 assuming \$120m is raised under the Offer and taking into account estimated costs of the Offer). The Offer will provide Stride with greater flexibility and options for the establishment of its office fund, Fabric Property Limited (Fabric), as well as progressing other strategic initiatives as part of Stride's broader investment management strategy.

HY22 Interim Results

HY22 has been another active six months for Stride, highlighted by significant growth in our business, with assets under management growing by \$439m to \$3.4bn. Stride has also continued to progress its strategy of establishing a group of Products in specific commercial property sectors to provide growth in its investment management business.

Stride has delivered positive results during this six month period, with profit before income tax from continuing operations of \$69.5m, up \$14.3m from the six months to 30 September 2020 (HY21), and profit after income tax from continuing operations of \$61.5m, up \$9.9m from HY21.

After considering the expected impacts on distributable profit for FY22 of rent abatements associated with the most recent COVID-19 restrictions, including the recently enacted Government legislation mandating commercial landlords provide tenants with rent abatements where the lease does not contain a "no access in an emergency" clause and the tenant has not been able to access their premises to fully conduct their business due to the pandemic, Stride confirms its previous guidance of combined cash dividends for FY22 of 9.91 cps, assuming no further restrictions are imposed due to COVID-19 once the traffic light system takes effect, assumed to be early December 2021.

Second quarter dividend

Stride today declares 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 2021, to be paid on 7 December 2021 to all shareholders on the register as at 5.00pm on 30 November

2021 (the record date). Stride has received a waiver from NZX to enable it to shorten the 5 business days' notice period prescribed by the NZX Listing Rules between the announcement of this dividend and its record date. This will mean that stapled securities issued in the Offer will not be eligible for the dividend for the quarter ended 30 September 2021, which Stride considers to be a fair outcome, as these securities were not on issue during the quarter to which the dividend relates. It also ensures that all persons acquiring shares in the Offer – whether under the placement or retail offer - are treated equally. Any shareholders wishing to adjust their shareholdings prior to the record date for the dividend will need to make any trades prior to market close on 26 November 2021 in order for the adjustment to become effective by the record date.

Financial Performance – Stride Property Group

- Net rental income of \$30.1m (HY21: \$20.5m), up \$9.6m, primarily due to the growth in SPL's office portfolio
- Management fee income of \$12.8m (HY21: \$13.1m), down \$0.3m, due primarily to the prior period being impacted by the \$1.2m acquisition establishment fee from Industrie Property Joint Venture (Industrie). Underlying recurring base fee income of \$8.2m was up 24.2% from HY21 (\$6.6m) due to strong growth in external assets under management to \$2.4bn, up from \$1.9bn as at 30 September 2020
- Profit before income tax from continuing operations of \$69.5m (HY21: \$55.2m), up \$14.3m
- Profit after income tax from continuing operations of \$61.5m (HY21: \$51.6m), up \$9.9m
- Distributable profit (note 2) after current income tax of \$24.2m (HY21: \$21.1m), up \$3.1m

Places – Stride Property Limited

- Total portfolio value (note 3) of \$1,216.4m as at 30 September 2021, a net valuation increase of \$13.7m or 1.1% from 31 March 2021
- SPL town centre portfolio value of \$321.3m as at 30 September 2021, a net valuation increase of \$11.5m or 3.7%, from 31 March 2021
- SPL office portfolio value of \$726.1m as at 30 September 2021. The valuations of Fabric's office portfolio (SPL's office-owning subsidiary) were largely in line with valuations as at 31 March 2021, recording a minor net valuation decrease of (\$1.0m) or (0.15%), primarily due to COVID-19 rental abatement provisions. In addition, SPL owns one office property directly, being 55 Lady Elizabeth Lane, Wellington. Works are required to improve the seismic performance of this property. The current estimated cost of these works has contributed to a \$17.3m devaluation of the property as at 30 September 2021
- Net Tangible Assets (NTA) per share of \$2.24 as at 30 September 2021, up 4.2% from 31 March 2021 (\$2.15). NTA does not include the value of SIML's management contracts

Transactions

- Acquisition of 46 Sale Street, Auckland, in June 2021 for \$152m

- Conditional agreement to acquire an office building at 110 Carlton Gore Road, Auckland, for \$217.5m, conditional on completion of the initial public offering of Fabric
- SPL is upgrading the office building at 22 The Terrace, Wellington, to 100% New Building Standard (NBS) and targeting 5 Star Green Star and 5 Star NABERSNZ ratings. Base build practical completion due December 2021
- Works are underway at 34 Shortland Street, Auckland, to improve this building, including upgrading the building to 100% NBS

Products

- Since 31 March 2021, Stride's assets under management (AUM) have grown by \$439m to \$3.4bn, with external AUM increasing from \$2.1bn to \$2.4bn as at 30 September 2021. Current potential acquisitions and developments would further increase Stride's AUM to \$3.8bn
- **Investore Property Limited (Investore):** Investore has focused on executing its strategy of targeted growth during HY22, completing \$73.3m of acquisitions, with a further conditional acquisition of development land for \$10.5m at Waimak Junction, Kaiapoi. Investore's portfolio value (note 4) has grown to \$1,149m as at 30 September 2021, representing a net valuation gain of \$44.8m or 4.1% over HY22
- **Industre Property Joint Venture (Industre):** SIML has continued to grow the Industre portfolio during HY22, completing \$42.7m of acquisitions, with a further \$54.7m of developments and acquisitions in progress and committed. Industre's portfolio value as at 30 September 2021 is \$738m, a net valuation gain of \$82.9m or 12.7% since 31 March 2021. SPL records its proportionate share of the Industre assets held in the joint operation component of the joint venture in its accounts, with this share achieving a \$20.4m net valuation gain (+13.7%)
- **Diversified NZ Property Trust (Diversified):** Diversified's portfolio has a value of \$508m as at 30 September 2021, representing a \$15.4m or 3.1% net valuation increase for HY22. SIML has been active in leasing across the Diversified portfolio during HY22, introducing a flagship Cotton On store to Chartwell Shopping Centre, and leasing 1,300 sqm at Remarkables Park Town Centre to the Queenstown Lakes District Council for 10 years for use as a modern community arts space and café. Both of these tenants are expected to deliver strong customer visitation to their respective centres

Portfolio

- When SPL's directly held investment properties are combined with SPL's look-through holdings in the other Stride Products, SPL's \$1.7bn look-through portfolio as at 30 September 2021 shows strong investment metrics, including 97.7% occupancy and a WALT of 6.7 years
- SPL's look-through portfolio as at 30 September 2021 comprises 44% office, 23% industrial, 13% large format retail and 20% retail shopping centres

Capital Management – SPL

- SPL's next debt facility to mature is for \$170m in August 2022, however post balance date commitments have been secured for an extension of this facility to April 2024, together with an increase in this facility of \$40m to \$210m, taking total facility size to \$495m

- As at 30 September 2021, SPL's bank covenant loan to value ratio (LVR) (note 5) is 41.0%, reducing to 29.8% on a pro forma basis assuming a \$120m capital raise. On a look-through basis (note 6), SPL's LVR is 36.4% or 29.3% on a pro forma basis assuming a \$120m capital raise. On a balance sheet basis (note 7), SPL's LVR is 28.8%, or 20.9% on a pro forma basis assuming a \$120m capital raise
- SPL and its wholly owned subsidiary, Fabric, have fixed rate hedging in place with notional value equivalent to 98% of drawn debt as at 30 September 2021 (including forward starting swaps), with a weighted average interest rate of 1.5% and a weighted average tenor remaining of 2.9 years

COVID-19 Update

- Stride will continue to work with its tenants to seek to ensure a fair allocation of the costs and benefits in relation to Alert Level restrictions arising from COVID-19, and will seek to minimise the financial impact for Stride and the Stride Products where possible
- Stride has provided for COVID-19 rental abatements of \$3.2m for the period to 30 September 2021

Capital Raising

The Offer comprises:

- **Placement:** A placement of \$100m to eligible investors. Stride reserves the right to increase the size of the placement at its discretion based on the size, composition and quality of demand from shareholders and other investors. The placement price will be \$2.00, which represents a discount of 8.5% to the last close on 24 November 2021 of \$2.185 (ex-dividend) and a 7.6% discount to the volume weighted average price for Stride stapled securities over the preceding five business days of \$2.164 (ex-dividend). Any stapled securities not taken up in the placement will be underwritten by Goldman Sachs New Zealand Limited at the placement price, pursuant to the terms of a placement agreement entered into with Stride today.
- **Retail Offer:** A retail offer (Retail Offer) offered 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 \$20m under the Retail Offer, with the discretion for Stride to accept additional applications. The issue price under the Retail Offer 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 Retail Offer. The Retail Offer 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 Retail Offer (except where restricted due to legal constraints) to maintain their pro rata holding in Stride, and should scaling be required, it will be by reference to existing shareholdings as at 5.00pm on 24 November 2021. The Retail Offer opens on 29 November 2021, with the offer document and online application form in respect of the Retail Offer also being available from that date.

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 its investment management strategy and focus on achieving further growth across its investment management business
- To help deliver this growth, Stride will remain active in supporting its existing products to continue to grow and enhance these portfolios and investor returns
- Successful completion of the Offer will reduce SPL's LVR to 29.8%, providing Stride with greater flexibility and options for the establishment of its office fund, Fabric, as well as progressing other strategic initiatives as part of Stride's broader investment management strategy
- Stride is committed to its strategy of establishing a group of investment management products in specific commercial property sectors to provide growth in its investment management business
- Stride continues to actively assess the potential options and next steps for establishing the office fund, Fabric
- The Stride Boards confirm they currently forecast a combined cash dividend per share for SPL and SIML for FY22 of 9.91 cps, assuming no further restrictions are imposed due to COVID-19 once the traffic light system takes effect, assumed to be early December 2021

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 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 4.2 to the consolidated interim financial statements for the six months ended 30 September 2021.
3. Excludes lease liabilities. Includes Stride's 52.2% interest in the joint operation 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.
4. Portfolio value as at 30 September 2021 excludes: (1) the seismic works to be completed by SPL and the rental guarantee provided by SPL in relation to the three large format retail properties acquired by Investore from SPL on 30 April 2020 (total \$5.6m); and (2) lease liabilities.
5. Banking covenant Loan to Value Ratio, calculated as bank debt as a percentage of investment property. Includes SPL's office and retail properties and the debt associated with these properties, and excludes SPL's interest in the Industrie joint operation and associated bank debt which are reported as part of the assets and liabilities of SPL in the consolidated interim financial statements
6. Look-through LVR is calculated taking into account SPL's directly-held property and debt as well as its proportionate share of the property and debt of each of the Stride Products.
7. Balance sheet LVR is calculated taking into account SPL's office and town centre properties as well as the value of SPL's interests in each of the Stride Products, and SPL's direct debt.

Ends

Attachments provided to NZX:

- Stride Property Group – HY22 Interim Results Announcement and Capital Raise - 251121
- Stride Property Group – HY22 Interim Report – 251121
- Stride Property Group – HY22 Interim Results and Capital Raising Presentation– 251121
- Stride Property Group – NZX Results Announcement – 251121
- Stride Property Limited – NZX Distribution Notice – 251121
- Stride Investment Management Limited – NZX Distribution Notice – 251121
- Stride Property Group – Corporate Action Notice - 251121

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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.