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Goodman Group upgrades FY20 EPS growth forecast to 11%

Date 13 February 2020

Goodman Group (Goodman or Group) today announced its results for the half year ended 31 December 2019. The Group delivered operating profit[1] of $530.4 million for the half, up 14.1% on 1H19, and operating earnings per share (EPS) of 28.8 cents[2], up 12.9% on 1H19. Statutory profit for 1H20 was $810.6 million.

The Group has upgraded its forecast FY20 EPS to 57.3 cents per security, up 11% on FY19 and confirms its forecast full year distribution of 30 cents per share.

Group Chief Executive Officer, Greg Goodman said: "Goodman produced a solid performance from all segments for the first half of FY20. Earnings from investment, development and management all increased by at least 10% from 1H19, while assets under management (AUM) grew 15% to $49.2 billion.

Our result continues to be driven by our focus on specific markets where e-commerce is growing, consumer expectations are rising and the need for more efficient supply chains is becoming greater.

We continue to build scale in our target markets, with development work in progress growing to $4.3 billion at the half, and expected to exceed $5 billion. Total available capital across the Partnerships has increased to $16.9 billion, and our gearing at 10% remains appropriate at this time, providing significant investment capacity and financial flexibility."

Key highlights for the period are:

Financial

+ **Operating profit of $530.4 million, up 14.1% on 1H19**
+ **Operating EPS of 28.8 cents, up 12.9% on 1H19**
+ **Statutory profit of $810.6 million (includes the Group's share of valuation gains, non-cash items and derivative and mark to market movements)**
+ **Distribution of 15.0 cents per stapled security (DPS) in line with the Group's capital management strategy to achieve a payout ratio in the low 50% range**
+ **Gearing at 10.0%[3] (look through gearing at 21.1%)**
+ **Net tangible assets (NTA) per security up 4.9% for the half to $5.60 (since 30 June 2019).**

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Operational

- **Total AUM of $49.2 billion, and external AUM of $45.7 billion – both up 15%**
- **Strength in asset pricing driving $1.6 billion in valuation uplift across the Group and Partnerships**
- **Quality portfolio maintains high occupancy of 98% and like-for-like net property income growth of 3.3%[4]**
- **Development work in progress (WIP) of $4.3 billion across 55 projects in 15 countries with a forecast yield on cost of 6.5%**
- **Average Partnership total returns on track to be in the low-teens for FY20.**

Property investment – ongoing investment into high-quality real estate is delivering strong portfolio performance

Quality properties located in highly sought-after locations means Goodman's portfolio continues to deliver strong rental returns and consistently high occupancy levels. Earnings from investments are up 17% to $213.3 million as a result of development completions, acquisitions and increased investment in Partnerships.

The Group has invested almost $1 billion in its Partnerships over the last 18 months to fund acquisition and development opportunities, including $120 million in 1H20. The competition for sites and undersupply of quality assets in the markets where Goodman operates, combined with strong investment market conditions, has seen the weighted average cap rate (WACR) across the portfolio compress by 17bps to 4.9% since June 2019.

Key highlights include:

- 1.6 million sqm leased equating to $224 million of annual property income
- Occupancy maintained at 98%
- Weighted average lease expiry (WALE) of 4.7 years in stabilised portfolio (11.7 years for development WIP)
- Like-for-like net property income growth of 3.3%[4]

Development – workbook grows to $4.3 billion and expected to exceed $5 billion

Limited supply of new developments in our markets, coupled with growing customer demand has given the Group the confidence to grow the development workbook to $4.3 billion (1H19: $3.6 billion) across 55 projects in 15 countries. Development earnings are up 10%, with consistent margins and good future demand.

Demand in our markets coupled with increased investment in automated facilities is leading to increased work in progress, and longer lease terms, with a WALE on commencements of 13.1 years and 11.7 years on WIP. The Group's development pipeline significantly exceeds $10 billion, generated from both the build-out of land banks under its control, as well as the redevelopment of existing stabilised assets.

Other key development highlights include:

- Commencements of $1.7 billion
- Development completions of $1.5 billion
- 80% of developments with committed leases on completion
- 77% of WIP undertaken within Partnerships.

Management – positive performance resulting in increased AUM and revenues

External assets under management have grown 15% since December 2018 to $45.7 billion, due to strong valuation gains, development completions and acquisitions across the platform. Management earnings are up 16% with performance fees expected to be strong for the full year, in line with the positive performance of the Partnerships.

Other key management highlights include:

+ Revaluation gains across the portfolio totalled $1.6 billion
+ $16.9 billion[5] available in undrawn debt, equity and cash
+ Partnership returns expected to be in the low-teens for FY20.

Corporate initiatives – Goodman's 2030 Sustainability strategy update

Goodman is making steady progress towards its sustainability targets outlined in its 2030 Sustainability strategy and continues to explore innovative ways to meet them. In light of the recent bushfire events in Australia, the Goodman Foundation has pledged an additional $5 million to assist bushfire recovery efforts. The funding will be directed towards projects that provide tangible and sustainable benefits to the community over the short to medium term. This includes a $750,000 donation to the NSW Farmers Natural Disaster Relief Fund as well as support for existing charity partner, Good360 Australia.

Outlook – Long-term structural trends to continue

Providing the outlook for the Group, Greg Goodman said, "The deliberate concentration of our assets in urban logistics locations is delivering high quality properties for our customers and strong returns for the Group and our Partners.

The combined effect of robust customer demand, scarcity of land and available space, and competition from alternative uses in our chosen markets, is generating strong property conditions. The Group continues to refine its portfolio in line with these changes over time.

The real estate fundamentals in our markets are set to deliver sustainable and competitive growth through high occupancy and sustained rental growth. Performance of the development business continues to be driven by growing customer demand, with development activity expected to exceed $5 billion. The outlook for the management business remains positive, with total AUM expected to exceed $50 billion by June 2020 and future AUM growth supported by growing development volumes and revaluations over the next few years.

We are mindful of current global events and continue to monitor them closely. In particular, we are managing our operations in relation to the coronavirus conservatively and prudently. Our priority has been the health and safety of our people and customers, especially in China, where our business is being managed flexibly to allow our customers to operate as safely and efficiently as possible.

At this moment, there has been no evidence to suggest any material impact on our business has occurred or will occur in the short term. In a slowing global economic environment, demand for industrial assets from customers and investors remains robust, particularly in the limited supply urban infill markets where the Group operates.

The Group has had a strong start to the year and indications for the second half remain positive. As a result, we are increasing our forecast operating EPS for FY20 to 57.3 cents, which is up 11% on FY19. The forecast distribution is maintained at 30.0 cents per security, as we have previously guided."

Goodman sets its targets annually and reviews them regularly. Forecasts are subject to there being no material adverse change in market conditions, or the occurrence of other unforeseen events.

– ENDS –

Authorised for release to the ASX by Carl Bicego, Company Secretary and Group Head of Legal.

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About Goodman

Goodman Group is an integrated property group with operations throughout Australia, New Zealand, Asia, Continental Europe, the United Kingdom, North America and Brazil. Goodman Group, comprised of the stapled entities Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited, is the largest industrial property group listed on the Australian Securities Exchange and one of the largest listed specialist investment managers of industrial property and business space globally.

Goodman's global property expertise, integrated own+develop+manage customer service offering and significant investment management platform ensures it creates innovative property solutions that meet the individual requirements of its customers, while seeking to deliver long-term returns for investors.

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[1] Operating profit comprises profit attributable to Securityholders adjusted for property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items. A reconciliation to statutory profit is provided in summary on page 10 of the Results Presentation announced on the ASX and available from the Investor Centre at www.goodman.com.

[2] Operating EPS is calculated using Operating Profit and weighted average diluted securities of 1,841.6 million which includes 17.9 million LTIP securities which have achieved the required performance hurdles and will vest in September 2020 and September 2021.

[3] Gearing is calculated as total interest-bearing liabilities over total assets, both net of cash and the fair values of certain derivative financial instruments included in other financial assets of $228.9 million (30 June 2019: $222.4 million). Total interest-bearing liabilities are grossed up for the fair values of certain derivative financial instruments included in other financial liabilities of $130.5 million (30 June 2019: $123.6 million).

[4] Excludes directly held on-balance sheet asset

[5] Partnership investments are subject to Investment Committee approval.