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Goodman

Goodman delivers strong FY20 result with operating profit up 12.5% to $1.06 billion

Date 13 August 2020

Goodman Group (Goodman or Group) today announced its results for the full year ended 30 June 2020. The Group delivered operating profit[1] of $1,060.2 million, up 12.5% on FY19, and operating earnings per security (EPS) of 57.5 cents[2], up 11.4% on FY19. Statutory profit was $1,504.1 million.

The Group's forecast operating profit for FY21 is $1,165 million, up 9.9% on FY20, and operating EPS of 62.7 cents per security, up 9% on FY20. Forecast full year distribution for the coming year is 30 cents per security.

Key highlights for the year are:

Financial

+ Operating profit[1] of $1,060.2 million, up 12.5% on FY19
+ Operating earnings per share (EPS)[2] of 57.5 cents, up 11.4% on FY19 (compared to initial guidance of 9%)
+ Statutory profit of $1,504.1 million (includes the Group's share of valuation gains, non-cash items and derivative and mark to market movements)
+ Distribution of 30.0 cents per stapled security (DPS) in line with the Group's capital management strategy
+ Gearing at 7.5%[3], down from 9.7% in FY19 (look through gearing at 20.3%)
+ Net tangible assets (NTA) of $5.84 per security, up 9.4% from FY19.

Operational

+ Total assets under management (AUM) of $51.6 billion, and external AUM of $48.0 billion – both increased by 12% from FY19
+ $2.9 billion of revaluation gains across the Group and Partnerships
+ Quality portfolio maintains high occupancy of 97.5% and like-for-like net property income (NPI) growth of 3.0%[4]
+ Development work in progress (WIP) of $6.5 billion across 46 projects, with a proposed yield on cost of 6.5%
+ Average Partnership total returns of 16.6%[5] in FY20.

Group Chief Executive Officer, Greg Goodman said: "It's been an extraordinary year, with the impact of the global pandemic continuing to have a profound impact on the world. Through this time, Goodman has remained resilient, continuing to execute our long-term strategy with our people adapting to the new operating environment with limited disruption.

The events of the last year have resulted in global changes in behaviour including an acceleration of e-commerce adoption, a shift to remote working and a significant increase in the demand for technology and big data. The location and quality of our properties means that Goodman is well positioned to leverage the opportunities that this new operating environment presents.

This has provided opportunities for the Group with operating earnings in FY20 remaining ahead of guidance. We saw development WIP increase by 59% on last year to $6.5 billion and we expect it to exceed $7 billion in the first half of FY21. This development activity is flowing through to our AUM which increased 12% to $51.6 billion in FY20, including $2.9 billion in revaluation gains. With strong income and capital growth, our Partnerships delivered average returns of 16.6%[5].

Goodman remains well-capitalised, with available liquidity of $2.8 billion, including $1.8 billion in cash, in addition to the $16.3 billion equity commitments, cash and debt available[6] within our Partnerships. Gearing for the Group has also reduced to 7.5% from 9.7% in FY19."

Property investment – focus on infill locations is maximising sustainability of earnings

We are seeing increasing customer demand for space in our strategic locations from several industry segments. Logistics and warehousing has provided critical infrastructure enabling distribution of essential goods during the pandemic, while more consumers continue to shift to online shopping.

Earnings from investments are up 14% to $425.2 million as a result of strong like-for-like NPI growth, development completions, acquisitions and increased investment in Partnerships. The Group has invested more than $1.1 billion in its Partnerships over the last two years, including $0.3 billion in FY20. This has predominantly been to fund development opportunities, as well as incremental acquisitions of properties that have redevelopment opportunities over the longer term.

Key highlights include:

+ High occupancy maintained at 97.5% and WALE of 4.5 years
+ Leased 3.0 million sqm equating to $401.7 million of annual rental property income across the Group and Partnerships
+ Like for like NPI growth at 3.0%[4].

Development – strong growth in workbook to $6.5 billion

Continued strong customer demand has translated into high levels of pre-commitment from customers which is at 76% for projects in WIP and reached 85% for those completed in FY20. The average lease term on WIP is now the longest it's been at 15.1 years, reflecting strong customer demand for, and the scarcity of, well-located sites and the technology investment customers are making in their facilities, and underpinning long-term value of the assets.

Our development projects have increased in scale and value, with the average time for developments in WIP increasing to 17 months. We expect margins for our developments to remain consistent given the current market conditions. This provides greater visibility over development activities going forward.

The Group has incrementally progressed sites through planning and undertaken infrastructure work over a number of years to enable sites to be available now to meet customer demand. Around the world, the Group continues to target higher and better use through re-zoning or increased floor space ratios with multi-level warehousing facilities. These initiatives will provide long-term, value-enhancing development opportunities in the supply constrained markets where we operate.

Key highlights include:

+ WIP of $6.5 billion across 46 projects with a forecast yield on cost of 6.5%
+ 79% of current WIP is being undertaken within Partnerships
+ Commenced $4.5 billion in new developments with 79% committed
+ Completed development projects worth $2.4 billion, with 85% leased
+ WIP to exceed $7 billion in first half of FY21.

Management – development completions and higher valuations driving positive performance

External assets under management have grown 12% over FY20 to $48.0 billion, due to development completions, cap rate compression and valuation gains. The impact of COVID-19 has increased demand for the industrial and logistics asset class which continues to generate positive revaluations.

The Partnerships delivered 16.6% average total returns for their respective financial years, with management earnings up 9% to $511.2 million. Performance fees are consistent with FY19 at ~$200 million.

Key management highlights include:
+ External AUM of $48.0 billion
+ Average total return in the Partnerships of 16.6%
+ Average Partnership gearing of 19.9%
+ Weighted average cap rate (WACR) compression of 23bps to 4.9% over the year
+ $16.3 billion available in equity commitements, cash and debt.

Environmental, social, governance – increasing our commitments

In this changing global landscape, we are continuing to increase our commitments and accelerate our progress on our 2030 Sustainability Strategy. We're investing more into renewable energy and carbon neutrality, while also improving the resilience of our workforce, business, properties and communities.

In FY20, the Group has:
+ Increased support, both financial and non-financial, through the Goodman Foundation to $13.7 million with a focus on disaster relief, particularly around the Australian bushfires and COVID-19
+ Increased our environmental sustainability targets from 100MW to 400MW of solar capacity primarily through solar investments at our properties
+ Completed our global climate risk assessment in accordance with TCFD recommendations two years ahead of our target.

These are some of the many initiatives from the Group in this area. A more comprehensive review of our progress will be published as part of our Sustainability Report later in the year.

Outlook – a sustainable business for the long term

Commenting on the outlook, Greg Goodman said, "Goodman has deliberately positioned its business over the past decade to maximise sustainability of earnings in varying market conditions. We expect COVID-19 to continue to significantly impact the way we live and work for the foreseeable future. We remain sympathetic to this, and continue to work closely with our customers who have been genuinely impacted, to provide them with the necessary support to manage through the pandemic and beyond.

The pandemic has reinforced the consumers' need for convenience, and heightened use of technology – which have accelerated the adoption of e-commerce and increased the need for data storage.

Notwithstanding the challenges of the pandemic, we're well positioned to take advantage of these key trends. We are continuing to increase the levels of development activity and will exceed $7 billion of work in progress in the first half of FY21. Customer demand in our markets is also translating into high occupancy, rental growth, higher AUM and ultimately strong returns across our property investment and management businesses.

Our business resilience, combined with these global macro trends, is leading to outperformance. As a result, the Group expects to deliver FY21 operating profit of $1,165 million an increase of 9.9% on FY20 and operating EPS of 62.7 cents (up 9% on FY20). Forecast distribution for FY21 will remain at 30.0 cents per security."

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 1,843.8 million which includes 17.8 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 $292.5 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 $194.0 million (30 June 2019: $123.6 million).

[4] Excludes balance sheet assets.

[5] Average total return based on Partnerships' last respective financial year.

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