

## **ANOTHER STRONG RESULT WITH STATUTORY PROFIT UP 13.3%, OPERATING PROFIT UP 27.0%, DISTRIBUTIONS UP 3.4%**

### **FY20 HIGHLIGHTS AND STRATEGY UPDATE**

- Statutory profit of \$181.1 million up 13.3% on prior year (FY19 \$159.9 million);
- Operating profit of \$221.2 million, up 27.0% on the prior year (FY19 \$174.2 million);
- FY20 distributions up 3.4% to 7.50 cps meeting original guidance despite COVID-19;
- 93 SME tenant-customers covered by Code, COVID-19 impact of \$9.6 million to 30 June 2020;
- Net Tangible Assets of \$0.99 (FY19 \$0.97) with Weighted Average Lease Expiry of 6.2 years; and
- Gearing of 41.6% with total assets under management (AUM) of \$11.5 billion.

Real estate investor and manager, Cromwell Property Group (ASX: CMW) (Cromwell), today reported full-year (FY20) statutory profit of \$181.1 million, up 13.3% on the prior year (FY19 \$159.9 million).

Operating profit, considered by the Directors to best reflect underlying earnings, was \$221.2 million, up 27.0% on the FY19 result of \$174.2 million, equivalent to 8.50 cents per security (cps) (FY19 8.21 cps) beating Cromwell's original FY20 earnings guidance of 8.30 cps by 0.20 cps.

Cromwell is pleased to be able to deliver FY20 distributions of 7.50 cps in line with original guidance.

"The 2020 calendar year is, and will continue to be, a difficult year for everyone," said Cromwell CEO Paul Weightman.

"COVID-19 is having a significant impact on economies, real estate markets, tenant-customers and friends, families and loved ones around the world. It will continue to impact us for months to come."

"Cromwell's strategy has been to ensure that it's ready to weather any storm and our investment in IT, systems and people has enabled us to operate smoothly throughout the pandemic," he added.

Cromwell reduced discretionary expenditure, stopped non-essential hires and travel from February. Cromwell has strong cashflows underpinned by high credit quality government tenants with substantial headroom to covenants. The cost of debt is at a low and there are no material upcoming debt expiries.

Rent collection was relatively unimpacted by COVID-19 given the strong skew towards government tenant-customers and larger ASX-listed entities. 93 SMEs were covered by the Commercial Code of Conduct and a total of \$9.6 million only was waived or deferred from March through to 30 June 2020.

Cromwell's strategy states that gearing may rise above its 'through the cycle' target gearing range of 30% – 40% on a short-term basis to accommodate 'Invest to Manage' opportunities. As at 30 June gearing is 1.6 percentage points above the range but is expected to reduce due to deleveraging over time. The sell-down of the Cromwell Polish Retail Fund (CPRF), would, in its own right, see gearing comfortably reduce well into the lower end of the target range.

Cromwell's 'Invest to Manage' strategy continues to deliver robust results and provide the business with further growth opportunities including Victoria Avenue in Chatswood, CPRF, Cromwell European Logistics Fund and the proposed Stratus Cromwell Data Centres Fund.

“Despite the testing external environment, Cromwell’s strategy has continued to deliver exceptional results for securityholders and we are delighted that their distributions have been unaffected by this unprecedented pandemic,” said Mr Weightman.

“We have proactively reviewed our strategy and are more than satisfied that it has patently proven to be the right one for investors,” he said.

## DIRECT PROPERTY INVESTMENT SEGMENT

Direct property investment segment profit was \$172.2 million, 26.5% higher than the \$136.1 million in FY19, driven by development profit at Northpoint and strong like-for-like Net Operating Income (NOI) growth above the rolling 3.0% target. The portfolio is valued at \$3.0 billion and split into three parts:

1. The Core portfolio comprises ten assets representing 78% of the portfolio by value and has a WALE of 7.5 years. It has occupancy of 99.2% and has generated NOI growth of 3.6%;
2. The Core+ portfolio comprises six assets or 20% of the portfolio by value, has 96.4% occupancy, a WALE of 3.0 years and NOI growth of 5.8%; and
3. The Active/Held for Sale portfolio consists of five assets (2% portfolio) to be repositioned or sold.

During the year, the weighted average cap rate improved to 5.57% with a fair value increase in investment property of \$65.2 million net of property improvements, lease costs and incentives, due in part to investors bidding up prices for long government backed leases.

There is also strong line of sight to a \$1.1 billion pipeline of repositioning work, inclusive of the opportunity at 475 Victoria Avenue, Chatswood and the DA lodged for a new 18,000 sqm PCA A-grade office building at 19 National Circuit, ACT.

## INDIRECT PROPERTY INVESTMENT SEGMENT

Segment operating profit was \$55.9 million, up 23.1% from \$45.4 million in FY19. The increase was largely driven by CPRF while the Cromwell European REIT (CEREIT) was the largest contributor with H1 2020 Net Property Income of €57.7 million, up 6.6% and distributions of 1.74 euro cents per unit.

CEREIT’s unwavering focus on unitholders interests was reflected in being ranked 7th in the listed real estate investment trusts and business trusts section in the Singapore Governance and Transparency Index 2020. This reflected a jump of 30 spots from the inaugural 2019 ranking of 36th.

At LDK, Cromwell’s Seniors Living joint venture, 210 apartments were completed at Greenway Views at the end of April, with 77 apartments sold. Focus is now on the final stage of works at Greenway Views and identifying further village sites to scale up the joint venture further.

In October 2019, Cromwell acquired all third-party investor interests in CPRF. The Polish government temporarily suspended retail lease agreements in the middle of March 2020 as part of its COVID-19 response plan. Essential retail including grocery continued to trade throughout and most tenant-customers were able to reopen in May, with footfall returning to 87% of 2019 levels in July.

The Polish law stipulates that tenants must serve notice to renegotiate their lease within three months of re-opening (phased from May 2020), including an extension of the lease term. If they fail to do so, then rent during the mandated closure period becomes payable and they lose the right to renegotiate. 111 tenant-customers have agreed lease variations so far with another 162 still to go. The total operating profit impact of rent not charged during the lockdown period was €2.6 million.

For the June quarter overall cash collection for the portfolio was 64% and it is expected that further amounts will be collected once negotiations conclude with each tenant. Cromwell will recommence the sell-down of CPRF once these negotiations complete and the COVID-19 situation settles down further.

## FUNDS AND ASSET MANAGEMENT SEGMENT

Cromwell's funds and asset management segment profit was \$40.8 million, up 43.2% from \$28.5 million in FY19. Total funds under management (FUM) was \$8.2 billion, split into \$2.2 billion of retail FUM and \$6.0 billion of wholesale FUM, the latter reducing mainly due to the sale of Northpoint Tower.

In Europe, Cromwell's local teams spent the last few months working with 2,200 tenant-customers on COVID-19 responses and select support packages for 780 tenant customers in 10 different countries. The quality of the FUM in the platform also continues to improve with 78% now recurring longer dated capital and, despite current challenges with COVID-19, Cromwell has a number of new growth opportunities to continue to build towards its medium-term target of €8 billion.

Within the retail investor segment, the withdrawal window for the Cromwell Direct Property Fund closed on 31 July 2020. Investors representing 90.1% of issued capital elected to continue their investment, a testament to DPF's track record of delivering regular, reliable monthly income.

In New Zealand, AUM at Oyster Group (50% interest) increased to NZ\$2.0 billion (NZ\$1.7 billion FY19). Highlights of the year included two syndicates, Pastoral House in Wellington and Home Straight Park, Hamilton both closing fully subscribed with forecast initial distribution yields of 6.0%.

## OUTLOOK AND GUIDANCE

The next twelve months will continue to be impacted by the largest ongoing economic and health crisis of the generation. Most global economies are in recession with the last quarter of calendar 2020 possibly the first quarter of growth seen anywhere since COVID-19 emerged at the start of the year.

"Challenges remain ahead. There is no COVID-19 vaccine, international travel is not feasible, further waves are likely and there is no doubt that all major economies are suffering," said Mr Weightman.

"We have a strong balance sheet with substantial liquidity and rent collection has been resilient for both the domestic Australian portfolio and CPRF during COVID-19 so far. 45% of gross passing income is sourced from government entities and our cashflows more than sufficient to service debt."

"Operating profit will be hard to forecast but we have enough confidence in our strategy to maintain distributions at the current level of 7.50 cps. This is subject to no material adverse change in market conditions, other unforeseen events, change in control, or change in strategy," he concluded.

FY21 distributions guidance represents distributions per security yield of 8.20%, based on a closing price of \$0.915 per security on 26 August 2020.

## HOSTILE, PROPORTIONAL OFFER AND EXTRAORDINARY GENERAL MEETING

ARA's intention to seize control of Cromwell has now been revealed and, just as Cromwell has stated all along, ARA's intentions equate to an attempt to takeover by stealth via a hostile and opportunistic proportional offer. The offer undervalues Cromwell and denies securityholders any control premium.

ARA is also seeking to install its nominees on Cromwell's Board at an Extraordinary General Meeting (EGM) on 18 September 2020, under the guise of refreshing the Board to change Cromwell's proven, successful strategy. Cromwell does not believe ARA's actions are in anyone's interests except its own.

ARA is a competitor to Cromwell and competes with Cromwell for assets and for capital. Both of ARA's nominees are associated with ARA or its advisors and the Cromwell Board would not consider them to be independent. Cromwell believes that ARA's nominees may have been nominated for the principal purpose of representing ARA's interests, which may not be in the best interests of all securityholders.

The Cromwell Board is recommending Cromwell securityholders reject ARA's hostile, opportunistic proportional offer and Cromwell will today release its Target's Statement detailing the Board's assessment and detailed rejection of ARA's offer. The Cromwell Board is also recommending Cromwell securityholders vote against ARA's nominated directors at the upcoming EGM.

Authorised for lodgement by Lucy Laakso (Company Secretary) and Paul Weightman (Chief Executive Officer).

Ends.

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**ABOUT CROMWELL PROPERTY GROUP**

Cromwell Property Group (ASX:CMW) is a diversified real estate investor and manager with operations on three continents and a global investor base. As at 30 June 2020, Cromwell had a market capitalisation of \$2.4 billion, a direct property investment portfolio valued at \$3.0 billion and total assets under management of \$11.5 billion across Australia, New Zealand and Europe.