Goodman

ASX release

Goodman Group upgrades FY22 EPS growth forecast to 20% with strong performance from all business segments

17 February 2022

Goodman Group (Goodman or Group) today released its results for the half year ended 31 December 2021. The Group delivered operating profit[1] of $786.2 million, up 28% on the first half of FY21, and operating earnings per security (EPS) of 41.9 cents[2], up 27% on the same period last year. Statutory profit was $2,002.8 million.

As a result of the strong progress to date and the outlook for the remainder of the year, the Group has increased its guidance for FY22 with operating EPS growth projected to be 20%.

Key highlights for the period are:

Financial

+ Operating profit[1] of $786.2 million, up 28% on 1H21
+ Operating earnings per share (EPS)[2] of 41.9 cents, up 27% on 1H21
+ Statutory profit of $2,002.8 million (includes the Group's share of valuation gains, non-cash items and derivative and mark to market movements)
+ Gearing at 7.2%[3], (4.8% at FY21) (look through gearing at 18.7%)
+ Available liquidity of $2 billion (excludes available equity commitments[4], cash and undrawn debt of $17.3 billion in Partnerships).
+ Net tangible assets (NTA) per security of $7.69 per security, up 15% from FY21.

Operational

+ Total assets under management (AUM) of $68.2 billion, and external AUM of $64.1 billion – both up 32% on 1H21.
+ $6.0 billion of revaluation gains across the Group and Partnerships
+ Portfolio occupancy remains high at 98.4%[5] and like-for-like net property income (NPI) growth of 3.4%[5]
+ Development work in progress (WIP) up 51% on 1H21 to $12.7 billion, across 81 projects, with a forecast yield on cost of 6.7%
+ Continued progress on ambitious ESG commitments.

Group Chief Executive Officer, Greg Goodman said:

"The Group's long-term focus on infill locations is underpinning our strong performance, and driving the volume and scale of the $12.7 billion workbook. It's also increasing the value of our projects. The average value of our development WIP now exceeds $3,700 per square metre and reflects the prime location, expected growth in rents and consequently better cap rates, for these properties.

Goodman continues to grow organically through development activity. This is increasingly reflected in the investment and management business performance as we focus on delivering sustainable opportunities for our customers and investors."

Property investment – location driving strong underlying property fundamentals

Demand for our properties remains high, driven by the continued growth of the digital economy and the need for greater supply chain efficiency for our customers.

Earnings from investment are up 19% on 1H21 to $234.0 million underpinned by like-for-like NPI growth of 3.4%[5], continued strong occupancy at 98.4%[5], and growth in the property portfolio, with over $4.1 billion in development completions and $3.3 billion of incremental acquisitions.

Key highlights include:

+ Like for like NPI growth at 3.4%[5].
+ High occupancy maintained at 98.4%[5] and WALE of 4.9 years
+ Leased 4.5 million sqm on a 12-month rolling basis to 31 December 2021, equating to $619 million of annual rental property income across the Group and Partnerships.

Development – increased scale and higher value projects

Strong customer demand is driving Goodman's development workbook as customers look for sites closer to consumers and invest in new facilities to accommodate significant investments in technology and automation.

Goodman's development activity is underpinning its organic growth with an average annual production rate of approximately $7 billion. The WIP is globally diversified across 81 projects and has grown in volume, scale and value. The increased scale and complexity have seen the average development period increase from 18 to 22 months over the past year.

While costs have increased globally across the construction process due to supply chain, labour and material shortages, Goodman's margins have remained strong. This has been managed proactively through the Group's procurement practices and contingencies for time and cost. In addition, rental growth and value-add activities across the portfolio and development projects have provided the ability to offset these costs.

The Group remains focused on regeneration of existing land and buildings and enhancing value through intensification of use such as multi-storey developments which make up $6.8 billion of the current WIP. Goodman is continuing to add opportunities to its portfolio incrementally to support future development in constrained markets, while reducing its impact on the environment through brownfield developments. These currently make up over 60% of the global WIP.

Key highlights include:

+ WIP of $12.7 billion with 63% pre-committed and completed projects averaging 99% leased, reflecting the strong customer demand for the Group's sites
+ Continued investment partnering with 89% of developments undertaken in the Partnerships or for third parties
+ Development yield on cost of 6.7%.

Management – development completions and higher valuations driving positive performance

External AUM across the Group's 16 managed Partnerships have grown 32% to $64.1 billion. This is the result of development completions, acquisitions and significant valuation gains of $6.0 billion across the Group and Partnerships.

The growth in AUM has translated to management earnings, which are up 18% on 1H21 to $258.2 million. AUM growth is expected to continue in future years, sustained by continued development activity and revaluations. Average Partnership total returns for the full year are expected to be around 20% further supporting future growth in earnings.

The Partnerships remain well funded to take advantage of growth opportunities with $17.3 billion of equity commitments[4], cash and undrawn debt available across the Partnership platform.

Key management highlights include:

+ External AUM of $64.1 billion, up 32% on 1H21
+ Performance fees of $74 million recognised in 1H22 and expected to be higher in the second half of the year
+ Average Partnership gearing of 17.7%
+ $17.3 billion available in equity commitments[4], cash and debt.

Environmental, social, governance – delivering on our commitments

Goodman continues to deliver on its 2030 Sustainability Strategy.

The Group is advancing its commitment to renewable energy with another 75MW of solar to be committed or installed by June 2022 taking its total to 200MW. Following certification as a Carbon Neutral Organisation by Climate Active last year, the Group is on track to remain carbon neutral in its global operations.

Goodman has also been measuring the level of embodied carbon in developments. It is working with suppliers to source more sustainable materials in order to reduce embodied carbon and is advanced in strategies to offset remaining emissions. In addition, Goodman is working closely with its customers to help them achieve their own sustainability goals.

Key ESG highlights include:

+ On track to increase solar PV installations by 75MW and reach around 200MW in FY22 – halfway to the 2025 target of 400MW
+ Measurement of embodied carbon in all new developments for reduction and offsetting
+ Commitment to Science Based Targets with assessment and verification underway for implementation this year, following Goodman Europe recently achieving verification
+ Contributed $7.8 million to community and philanthropic causes in 1H22, including $121k raised directly by staff.

Outlook – consumer focused location strategy continues

Commenting on the outlook, Greg Goodman said: "Our strategy to provide essential infrastructure for the digital economy is delivering. The business is performing strongly across all segments, including our development projects, leasing success, rental growth, significant valuation uplift and the strong performance of our Partnerships.

In addition, COVID related disruptions in FY22 have been managed to have less impact on the full year projections than we had initially assumed. The operating outlook for the business is strong and gives us confidence for the remainder of this year.

Consequently, we are upgrading our market guidance for FY22, with Operating EPS growth projected to be 20%."

Forecast distribution for FY22 remains at 30.0 cents per security given the attractive opportunity to deploy retained earnings into the Group's development and investment inventory and in keeping with the Group's financial risk management policy.

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, Group Head of Legal and Company Secretary.

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About Goodman

Goodman Group is an integrated property group with operations throughout Australia, New Zealand, Asia, 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.

For more information visit: www.goodman.com

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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.

[2] Operating EPS is calculated using operating profit and weighted average diluted securities of 1,876.0 million which includes 15.5 million LTIP securities which have achieved the required performance hurdles and will vest in September 2022 and September 2023.

[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 $125.6 million (30 June 2021: $134.1 million). Total interest bearing liabilities are grossed up for the fair values of certain derivative financial instruments included in other financial liabilities of $70.9 million (30 June 2021: $62.3 million).

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

[5] Partnership portfolio.