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Goodman delivering on strategy and driving earnings to \$653 million

Date	13 August 2015
Release	Immediate

Goodman Group (Goodman or Group) today announced its results for the full year ended 30 June 2015, delivering an operating profit of \$653 million and statutory profit of \$1,208 million.

Through the focused execution of its strategy in FY15, the Group has delivered 7.1% operating earnings per security growth, while simultaneously lowering gearing to further strengthen its balance sheet. Goodman completed a productive year, taking advantage of market conditions to sell \$1.9 billion of assets and reinvest this capital into its growing \$3.1 billion development workbook, enhancing asset and income quality, and generating higher investment returns at this point in the cycle.

With the current market conditions expected to continue, Goodman is forecasting earnings growth of 6% in FY16, while further reducing gearing. This will in turn provide the Group with significant financial and operating flexibility for future periods to deliver on its earnings growth targets.

Key financial and operational highlights for the period are:

Financial highlights

- + Operating profit of \$653 million¹, a 9% increase on the same period last year
- + Statutory profit of \$1,208 million¹ (including property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items)
- + Operating earnings per security (EPS)¹ of 37.2 cents², up 7.1% on FY14
- + Total distribution of 22.2 cents per stapled security, up 7% on FY14
- + Strong operating cash flow and financial position maintained – balance sheet gearing of 17.3%³ and interest coverage ratio (ICR) of 6.0 times
- + Net tangible assets per security increased 20% to \$3.46, with a significant contribution from urban renewal projects
- + Group liquidity at \$1.8 billion, with weighted average debt maturity of 4.7 years
- + Total GMG Securityholder Return of 30% for FY15
- + Positioned to deliver a target long-term EPS growth of 6%, including forecast FY16 operating EPS of 39.4 cents (up 6% on FY15)
- + Target distribution payout ratio unchanged at 60%, resulting in a forecast FY16 distribution of 23.8 cents per security

Goodman Group

Goodman Limited | ABN 69 000 123 071
Goodman Funds Management Limited | ABN 48 067 796 641 | AFSL Number 223621
as responsible entity of Goodman Industrial Trust | ARSN 091213 839
Level 17, 60 Castlereagh Street, Sydney NSW 2000 | GPO Box 4703, Sydney NSW 2001 Australia
Tel +61 2 9230 7400 | Fax +61 2 9230 7444

Goodman Logistics (HK) Limited | Company No. 1700359 | ARBN 155 911 149 | a Hong Kong company with limited liability
Suite 2008, Three Pacific Place, 1 Queen's Road East, Hong Kong | Tel +852 2249 3100 | Fax +852 2525 2070

info-au@goodman.com | www.goodman.com

Operational highlights

- + **Total assets under management of \$30.3 billion, up 13% on FY14, reflecting increased valuations arising from the demand for quality and well performing industrial assets**
- + **Robust property fundamentals across core investment portfolio, with occupancy maintained at 96%, and weighted average lease expiry of 4.8 years**
- + **Development work in progress of \$3.1 billion across 76 projects in 11 countries, 65% pre-committed and 71% pre-sold to third parties or managed partnerships, generating a forecast yield on cost of 8.8%**
- + **Managed partnerships prudently managing capital, with \$7.6 billion of undrawn debt and equity capital and proceeds from asset sales to fund growth opportunities**
- + **Progressing urban renewal strategy in line with expectations, \$1.1 billion of sites conditionally contracted, of which \$110 million settled in July 2015**
- + **1,100 dedicated people operating in 16 countries**

Goodman's Group Chief Executive Officer, Mr Greg Goodman said, "Goodman has delivered a rewarding full year operating profit of \$653 million, which is up 9% on FY14 and consistent with the upgraded earnings guidance announced by the Group in February. This equates to over 7% growth in earnings per security, largely driven by growing development volumes, which has seen our work book increase to over \$3 billion, and robust activity across our stabilised portfolio, with net property income growth of 2.5% and occupancy maintained at 96%."

"Goodman's FY15 performance reflects the focused execution of our business strategy, which in future periods will provide the Group with significant financial and operational flexibility. Our focus is on improving the quality of our income and properties, by selectively rotating assets, including urban renewal sites, and reinvesting capital back into our development business and selective investment opportunities. Goodman's development-led approach is generating the best risk adjusted returns in this part of the cycle and will over the long-term drive higher investment returns for our capital partners and Securityholders."

The Group's statutory profit for the full year of \$1,208 million is after property revaluations, derivatives and foreign currency being marked to market and other non-cash or non-recurring items. The statutory profit was strongly influenced by \$710 million of asset revaluations, with higher valuations from certain Goodman urban renewal sites, reflecting zoning changes and comparable sales, contributing approximately 70% of the asset revaluations over the full year. With identified urban renewal sites maintained at more than 35,000 apartments, valuation uplifts are expected to be a recurring theme in future reporting periods, assuming the current demand for residential sites continues.

In FY15, the Group and its managed partnerships sold \$1.9 billion of investment properties (excluding urban renewal) in a number of its operating regions, taking advantage of the favourable capital market conditions and strong asset pricing globally. Consistent with the ongoing delivery of Goodman's development-led strategy, sale proceeds are being reinvested into its development business to finance opportunities across its global workbook.

The Group made significant progress on the roll out of its urban renewal strategy during the year and continues to work through its current urban renewal pipeline in Sydney and Melbourne, achieving positive planning outcomes on a number of sites. The ongoing evolution of urban renewal precincts and the identification of new sites across Goodman's portfolio is expected to drive further opportunities and see its urban renewal pipeline continue to increase meaningfully over time.

At 30 June 2015, the Group had conditionally contracted \$1.1 billion of urban renewal sites of which \$110 million settled in July 2015, with further settlements to occur over the next three years. Given the strength of demand for re-zoned residential sites, Goodman's urban renewal activities will become a significant longer-term source of capital to fund opportunities across the Group and managed partnerships.

Goodman continues to focus on maintaining a strong capital position, ensuring the long-term sustainability of its earnings. At 30 June 2015, the Group had reduced its gearing to 17.3%, with available liquidity of \$1.8 billion.

Goodman retained the strong support of investors over the full year period, with capital partners participating in \$1.8 billion of new equity, primarily for North America, China and Japan. The ability of Goodman's managed partnerships to provide global investor groups with access to quality opportunities not typically available on the market, coupled with their focus on targeted asset selection and rotation, is driving investment returns and long-term value creation. This enabled Goodman's managed partnerships to deliver on average a total return of 16% over the last 12 months.

Operations

The Group's operations achieved an operating EBIT of \$717 million⁴, or an 8% increase compared with the same period last year, as a result of the organic growth and increased scale from Goodman's existing markets. The strong activity in the Group's development and management businesses contributed a combined 49% of operating EBIT, consistent with the high customer and investor demand for prime industrial space across Goodman's global markets. The increased contribution from the development business was a key factor in the outperformance for the full year.

Investments

Investments contributed operating EBIT of \$395 million, a 2% increase compared with the same period last year. Investment earnings increased, notwithstanding the completion of \$1.9 billion of asset disposals across the Group and its managed partnerships, consistent with the strategy of selectively rotating property assets to take advantage of the market demand for industrial properties, providing capital for reinvestment into higher growth development opportunities.

Underlying property fundamentals were sound over the full year period, with 3.4 million sqm successfully leased across Goodman's quality portfolio of 411 properties globally, achieving like for like rental growth of 2.5% and positive reversions of 4.7% on new leases. Overall occupancy was maintained at 96%, with a 74% retention rate, reflecting the value of Goodman's focused customer offering. The weighted average lease expiry across the investment portfolio was 4.8 years.

Developments

Developments contributed operating EBIT of \$257 million, a 20% increase compared with the same period last year. This strong performance was driven by growing volumes in line with the Group's development-led strategy at this point in the property cycle, satisfying the demand for prime, well-located logistics space. Goodman's specialist industrial product offering is also benefitting from ongoing structural changes and customer focus on realising greater efficiencies

and returns from their property solutions. This has seen Goodman experience significant development activity across all of its operating regions during the year, with development work in progress increasing to \$3.1 billion, generating a yield on cost of 8.8% and equating to 2.2 million sqm of new space, across 76 projects in 11 countries.

Strong customer demand, coupled with Goodman's prudent development approach and focus on maintaining a strong balance sheet position by rotating capital and capital partnering, ensures the ongoing sustainability of earnings. The quality and consistency of the development business is manifesting itself into achievements such as Goodman being named Europe's largest developer for the fourth consecutive year.

Management

Management contributed operating EBIT of \$125 million, a 7% increase compared with the same period last year. The Group's managed partnerships performed strongly over the full year, executing a development-led strategy in markets where customer demand exists and selectively rotating assets to provide capital for reinvestment into higher growth opportunities.

Third party assets under management increased to \$25.2 billion over the full year, an increase of 13% compared to 30 June 2014. This was a key driver of the growth in Management earnings, predominantly as a result of development completions and growth in asset pricing.

Goodman's managed partnerships remain well supported by global investor groups, providing access to high quality growth opportunities in proven locations, driving strong ongoing total returns and underpinning long-term value creation. The Group's managed partnerships have available investment capacity of \$7.6 billion⁵ of undrawn equity and debt, combined with proceeds from ongoing asset rotation initiatives, to participate in a broad range of growth opportunities from the Group and broader market. Management continues to progress partnership initiatives in both the UK and Brazil.

Capital Management

Goodman is seeking to deliver sustainable growth and competitive returns on a "through the cycle" basis, while maintaining its sound financial position.

The current operating environment is attracting strong capital flows and driving the higher pricing of industrial assets, which in turn is providing favourable conditions for Goodman to rotate assets and focus on its development activities to deliver growth in investment returns. Reinvesting capital from the sale of assets across the Group and its managed partnerships to fund development at this point in the cycle has the benefit of minimising the amount of new capital required and reducing financial leverage.

With increased development activity, the Group will retain its focus on reducing financial leverage and maximising available liquidity to reflect the increased earnings contribution from development, ensuring it is appropriately positioned to fund its workbook, absorb any changes in market volatility and take advantage of growth opportunities over the longer term. As a result, gearing is expected to further reduce from 17.3% at 30 June 2015, providing Goodman with considerable financial flexibility for future periods.

Board oversight of the Group's development exposure, capital structure and hedging strategies is undertaken with a view to enabling the Group to withstand both market and foreign currency volatility.

Outlook

Goodman is well placed to capitalise on its position as a leading industrial property group, having built a strong platform for FY16 and future periods to sustainably grow earnings and create long-term value for its stakeholders.

The Group is leveraging its expertise and development and management capability, and the quality of its extensive customer and capital partner relationships, to take advantage of the demand for prime industrial property and selectively secure high quality growth opportunities in key logistics markets globally.

With a geographically diversified operating platform spanning key logistics markets globally already in place and a skilled team of people driving the execution of Goodman's business strategy, the Group is focused on improving asset and income quality across its portfolio. This is being delivered by realising targeted asset rotation opportunities, including urban renewal opportunities, with significant capital being reinvested into Goodman's development activities and providing the Group and its managed partnerships with future financial flexibility whilst maintaining a strong financial position.

The strength of Goodman's development capability and access to a significant pipeline of opportunities, demand from capital partners for investment opportunities, and the ability to deliver modern and efficient property solutions for a global customer base, are expected to be key drivers of earnings in FY16.

Accordingly, Goodman is forecasting full year FY16 operating earnings per security of 39.4 cents, up 6% on FY15, and a forecast distribution of 23.8 cents.

- Ends -

For further information, please contact;
Greg Goodman
Group Chief Executive Officer
Tel: + 612 9230 7400

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 fund managers of industrial property and business space globally.

Goodman's global property expertise, integrated own+develop+manage customer service offering and significant fund 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.

¹ Operating profit and operating EPS comprise profit attributable to Securityholders, adjusted for property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items. Operating profit is used to present a clear view of the underlying profit from operations. It is used consistently and without bias year on year for comparability. A reconciliation to statutory profit is provided in summary on page 10 of the ASX Results Presentation and in detail on page 6 of the Directors' Report as announced on ASX and available from the Investor Centre at www.goodman.com.

² Calculated based on weighted average diluted securities of 1,754.7 million, including 9.4 million LTIP securities which have achieved the required performance hurdles and will vest in September 2015 and September 2016.

³ Calculated as total interest bearing liabilities over total assets, both net of cash and fair values of cross currency swaps used to hedge liabilities denominated in currencies other than those to which the proceeds are applied equating to \$176.9 million – refer to Note 13 of the Financial Statements.

⁴ Operating EBIT comprises statutory profit before interest and tax of \$1,378.0 million adjusted for property valuations and other non-cash or non-recurring items. A reconciliation to statutory profit before interest and tax is provided in Note 4 of the Financial Statements.

⁵ Fund investments are subject to investment committee approval