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### **Goodman delivers first half FY16 operating profit of \$357 million, with operating EPS up 7.5%**

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**Goodman Group (Goodman or Group) today announced its results for the half year ended 31 December 2015, delivering an operating profit of \$357 million and statutory profit under IFRS of \$919 million. The Group continues to capitalise on the strong global demand for modern, high quality logistics space in prime gateway cities, ensuring it is well positioned to drive consistent earnings growth over the remainder of FY16.**

**Key financial and operational highlights for the period are:**

#### **Financial highlights**

- + **Operating profit of \$357 million<sup>1</sup>, a 9% increase on the same period last year**
- + **Statutory profit of \$919 million<sup>1</sup> (including property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items)**
- + **Operating earnings per security (EPS)<sup>1</sup> of 20.1 cents<sup>2</sup>, up 7.5% on 1H FY15**
- + **Total distribution of 11.9 cents per stapled security, up 7% on 1H FY15**
- + **Strong operating cash flow and financial position maintained – balance sheet gearing of 15.9%<sup>3</sup> and interest coverage ratio (ICR) of 5.3 times**
- + **Net tangible assets per security increased 13% to \$3.90, with a significant contribution from urban renewal projects**
- + **Group liquidity at \$1.9 billion, with average debt maturity of 4.3 years**
- + **Positioned to deliver upwardly revised forecast FY16 full year operating EPS of 40.0 cents (up 7.5% on FY15). Focus remains on target long-term EPS growth of 6%**

#### **Operational highlights**

- + **Total assets under management of \$33 billion, up 10% on FY15, 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 4.7 years**
- + **Development work in progress of \$3.4 billion across 72 projects in 11 countries, 70% pre-committed and 72% pre-sold to third parties or managed partnerships, generating a forecast yield on cost of 8.3%**
- + **Group and Partnerships deleveraging, with \$10 billion of undrawn debt, cash and equity capital**
- + **Progressing urban renewal strategy in line with expectations, \$1.9 billion of sites conditionally contracted with settlements to occur over the next one to three years**

#### **Goodman Group**

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Goodman's Group Chief Executive Officer, Mr Greg Goodman said, "Goodman has performed strongly in the first half, delivering an operating profit of \$357 million. This represents a 9% increase on the same period last year and equates to growth in operating earnings per security of 7.5%. The outperformance achieved was largely driven by the quality and strength of our growing \$3.4 billion development work book and active nature of our investment Partnerships."

"The first half result highlights our commitment to the execution of the Group's business strategy and our focus remains on improving the quality of our properties and income. A number of themes are shaping the industrial property sector globally, which are underpinning the ongoing demand for quality logistics space and expected to be key drivers of Goodman's earnings."

In particular, the Group is capitalising on the strong underlying growth in consumerism across its operating regions, which is being driven by trends including the growing middle class in developing economies, our customers seeking greater cost efficiencies within their supply chains and faster delivery from warehouse to end consumer. The growth in ecommerce is providing Goodman with opportunities to invest in proven logistics locations around major gateway cities, as operators expand their fulfilment networks and seek to optimise last mile delivery times.

The transformation of industrial property into a sought after investment asset class continues to drive demand for the Group's specialist offering, with global investor groups seeking greater exposure to well located, high yielding industrial property investments. This is reflected in the attractiveness of Goodman's Partnerships, which are providing our partners with access to high quality growth opportunities that underpin long-term total returns and value creation.

Goodman's ability to create long-term value is underpinned by our international platform. We have created a truly global business, spanning 15 countries outside Australia, which are contributing 63% of operating EBIT. Importantly, our geographic diversification is providing stability of earnings from our large and established Sydney market, which represents 32% of global assets under management, to our newer markets such as Los Angeles, which is providing future growth prospects. We have prudently built our international operating platform over the last 15 years, exporting a consistent business strategy specialising in industrial real estate and servicing a global group of customers and investment partners.

Statutory profit under IFRS of \$919 million for the half year is after property revaluations, derivatives and foreign currency being marked to market and other non-cash or non-recurring items. The statutory profit was primarily influenced by positive property revaluations, including valuation uplifts from a number of urban renewal sites, which account for approximately one third of the total valuation gains.

With active development and management earnings now representing 57% of operating earnings, Goodman is committed to maintaining a strong capital position as part of its overall disciplined approach to risk management. Gearing was reduced to 15.9% at the end of the first half, with the Group's available liquidity at \$1.9 billion.

## **Operations**

The Group's operations achieved an operating EBIT of \$452 million<sup>4</sup>, or a 28% increase compared with the same period last year, as a result of the organic growth, geographic diversification and increased scale from Goodman's existing markets. The Group's development and management businesses experienced robust activity, reflecting the ongoing high customer

and investor demand for prime industrial space across Goodman's global markets. Together, the development and management businesses were key drivers of the strong performance for the half year and increased their contribution to a combined 57% of operating EBIT.

## **Investments**

Investments contributed operating EBIT of \$206 million, a 5% increase compared with the same period last year. The movement in Investment earnings reflects the completion of a further \$1.3 billion of asset disposals (excluding urban renewal sites) 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. This is providing capital for reinvestment into higher growth development opportunities, which in turn will improve the overall quality of the portfolio and income being generated.

Robust underlying property fundamentals over the full year period resulted in 1.5 million sqm of space successfully leased across Goodman's quality portfolio of 432 properties globally. Like for like rental growth of 1.7% was achieved, with positive reversions of 5.2% on new leases. Overall occupancy was maintained at 96%, with a 74% retention rate, reflecting the value of Goodman's quality customer offering. The weighted average lease expiry across the investment portfolio was 4.7 years.

The rollout of the Group's urban renewal strategy continued to make significant headway during the half year, with positive planning outcomes being achieved on a number of sites in its current urban renewal pipeline. Reflecting the strength of demand for re-zoned residential sites, Goodman had conditionally contracted \$1.9 billion (\$1.6 billion Group / \$0.3 billion Partnerships) of urban renewal sites as at 31 December 2015. Settlement of these sites will continue over the next three years, with an urban renewal pipeline in Sydney and Melbourne of approximately 35,000 apartments still to be realised across the Group and Partnerships.

## **Developments**

Developments contributed operating EBIT of \$177 million, a 39% increase compared with the same period last year. The execution of Goodman's development-led strategy was highlighted in the half year by the strong performance of the development business, with the demand for prime, well-located logistics space driving increased volumes. Significantly, demand continues to be underpinned by robust underlying domestic consumption in major global gateway cities; ongoing structural changes, including the rapid growth in ecommerce; and customer focus on realising greater efficiencies and returns for their property solutions.

Goodman experienced significant development activity across all of its operating regions during the half year, particularly in Europe and North America. This has seen development work in progress increase to \$3.4 billion, generating a yield on cost of 8.3% and equating to 2.4 million sqm of new space, across 72 projects in 11 countries.

## **Management**

Management contributed operating EBIT of \$99 million, a 66% increase compared with the same period last year. The Group's Partnerships performed strongly over the half year, with higher revenue derived from growth in transactional activity. This was delivered by the Partnerships executing a development-led strategy in undersupplied markets and selectively rotating assets to provide capital for reinvestment into these higher growth opportunities.

A key driver of the growth in Management earnings was the increase in third party assets under management to \$28 billion over the half year. This represents an increase of 11% compared to 30 June 2015 and was primarily the result of development completions, sustained growth in asset pricing and foreign currency movements.

Global investment partners continue to support Goodman's Partnerships, with a further \$2.2 billion of equity raised during the period. This reflects the proven ability of the Group's investment management platform to drive strong ongoing total returns and deliver long-term value creation. The Group and its Partnerships have available investment capacity of \$10 billion<sup>5</sup> of undrawn equity, debt and cash, to participate in a broad range of growth opportunities from the Group and broader market.

With the ongoing strength of property capital markets, Goodman's Partnerships completed a number of ongoing asset rotation initiatives during the quarter, providing a key source of capital for the develop to hold strategy being increasingly implemented across the Partnership platform. This will improve portfolio quality and maintainability of income, by providing investment partners with access to growth opportunities in proven locations that are not readily available on the open market.

## **Capital Management**

Goodman continues to take a long-term view towards its real estate investments and is committed to delivering sustainable growth and competitive returns. This in turn ensures that Goodman 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 further reduced in the half year to 15.9%, with available liquidity currently of \$1.9 billion, providing Goodman with considerable financial flexibility for future periods. The Group has a weighted average debt maturity profile of 4.3 years, with debt maturities fully covered to the end of the 2019 calendar year.

## **Outlook**

Goodman's first half result reflects the focused and consistent execution of its business strategy, which has built a strong platform for the second half of FY16 and future periods to sustainably grow earnings and create long-term value for its stakeholders.

The Group's continued focus is 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 high quality development business. In turn, this will provide the Group and its Partnerships with future financial and operational flexibility, while 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 position itself to take advantage of structural changes impacting the industrial property sector to deliver quality property solutions for a global customer base, are expected to be key drivers of earnings in the second half of FY16.

Goodman is well positioned for the second half of FY16 and expects first half operating profit to be maintained. Accordingly, the Group has upwardly revised its forecast full year FY16 operating earnings per security to 40.0 cents, up 7.5% on FY15, with forecast distributions increased to 24.0 cents, up 8% on FY15.

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For further information, please contact;  
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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 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.

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<sup>1</sup> 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 9 of the ASX Results Presentation and in detail on page 4 of the Directors' Report as announced on ASX and available from the Investor Centre at [www.goodman.com](http://www.goodman.com).

<sup>2</sup> Calculated based on weighted average diluted securities of 1,775.6 million, including 11.0 million LTIP securities which have achieved the required performance hurdles and will vest in September 2016 and September 2017.

<sup>3</sup> 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 \$217.8 million – refer to Note 9 of the Financial Statements.

<sup>4</sup> Operating EBIT comprises statutory profit before interest and tax of \$1,057 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.

<sup>5</sup> Partnership investments are subject to investment committee approval.