PFI ANNOUNCES STABLE INTERIM RESULTS

The PFI management team will present the results via live webcast from 10am NZT on 22 August 2022. To view and listen to the webcast, please visit https://edge.media-server.com/mmc/p/3bdexvc5. Anyone wishing to participate in the webcast (for example, to ask a question) must pre-register for the conference call at https://register.vevent.com/register/BI33cbd8a72ecb4e8b8bd64c99aec3bd90. Upon registering, participants will be provided with participant dial-in numbers, a passcode and a unique registrant ID. In the 10 minutes prior to the call start time, you will need to use the conference access information provided in the email received at the point of registering, in addition to opening the webcast (using the details above).

Highlights

- **Stable operating result:** Interim profit after tax of $23.8 million, Funds From Operations (FFO)[1] earnings down 4.3% from the prior interim period to 5.13 cents per share, Adjusted Funds From Operations (AFFO) earnings in line with the prior interim period at 4.64 cents per share, interim cash dividends of 3.60 cents per share.
- **Portfolio delivering strong rental growth:** $28.7 million of contract rent reviewed during H1 2022 delivering an average annualised uplift of 4.8%, 9.6% of contract rent leased during H1 2022 at an average of 15.6% above previous contract rents, 3.9% of contract rent due to expire in H2 2022.
- **Resilient industrial portfolio of scale:** Portfolio value of $2.19 billion, 11 properties revalued at the half-year, fair value gains on properties of $19.5 million, net tangible assets confirmed at 309.6 cents per share.
- **Proactive capital management:** 725,000 shares acquired through share buyback programme, $100 million BNZ facility refinanced, USPP facility established post balance date, $122 million of available bank liquidity, gearing comfortable at 27.6%.
- **Brownfield opportunities progressed:** 47A Dalgety Drive complete, significant leasing progress made at 30-32 Bowden Road, $219 million or 10% of the portfolio held in brownfield opportunities.

Property for Industry Limited (PFI, the Company) today announced a stable interim operating result for the six months ended 30 June 2022.

"We are pleased to announce a stable operating result for the first half of 2022. Our portfolio has been delivering strong rental growth and we are making excellent progress developing out our key brownfield opportunities" says PFI Chief Executive Officer, Simon Woodhams.

Stable operating result

PFI generated a profit after tax for the interim period of $23.8 million (4.70 cents per share), down from $273.5 million (54.46 cents per share) in the prior interim period. A $19.5 million fair value gain on the independent valuation of 11 investment properties and the revaluation of two properties when transferring them to assets held for sale, as compared to a $248.2 million fair value gain on the independent valuation of the entire portfolio in the prior interim period, was the main contributor to this reduction.

In addition, it was determined that goodwill of $29.1 million, which arose on the merger with Direct Property Fund in July 2013, was impaired, and the full amount was written off during the interim period. Notwithstanding this, the merger has been a very successful transaction for PFI, with a growth in rents

[1] Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO) are non-GAAP financial information and are common property investor metrics, which have been calculated in accordance with the guidelines issued by the Property Council of Australia. Please refer to Appendix 1 for more detail as to how these measures were calculated.

of 35% and values of 124% for those properties still owned by PFI, and gains on sale for those properties divested of 18%[2].

At an operating level, net rental income of $47.6 million was up $1.6 million or 3.6% on the prior interim period, with positive leasing activity contributing $1.9 million to this increase. Offsetting this, interest expense and bank fees rose by $2.0 million on the prior interim period, this increase being the result of an increase in the Company's weighted average cost of debt to 4.07% as at the end of the interim period from 3.40% as at the end of prior interim period, combined with a $54 million or 10% increase in average borrowings from net acquisition and divestment activity.

As a result, FFO earnings were down 4.3% from the prior interim period to 5.13 cents per share, whilst AFFO earnings of 4.64 cents per share were in line with the prior interim period (4.71 cents per share).

That being the case, the PFI Board today resolved to pay a second quarter interim cash dividend of 1.80 cents per share. The dividend will have imputation credits of 0.58 cents per share attached and a supplementary dividend of 0.26 cents per share will be paid to non-resident shareholders. The record date for the dividend is 29 August 2022, and the payment date is 7 September 2022. The dividend reinvestment scheme will not operate for this dividend.

The second quarter dividend will take cash dividends for the interim period to 3.60 cents per share, in line with 2021 dividends, resulting in an FFO dividend pay-out ratio of 79% (2021: 74%) and an AFFO dividend pay-out ratio of 87% (2021: 84%, refer Appendix 2).

Positive results for the year to date and market conditions that are delivering strong rental growth now mean that the PFI Board expects to declare cash dividends of 8.10 cents per share for the 2022 financial year, at the upper end of the initial guidance range of 8.05 to 8.10 cents per share. Dividends of 8.10 cents per share would represent an increase of 2.5% on 2021 dividends.

PFI's dividend policy to distribute between 90% to 100% of AFFO on a rolling three-year historic average basis, and cash dividends of 8.10 cents per share are anticipated to result in a dividend pay-out at the bottom of this dividend policy range. This guidance is subject to there being no material adverse changes in conditions or unforeseen events, including no material tenant failures.

Portfolio delivering strong rental growth

Portfolio snapshot as at	30 June 2022	31 December 2021
Book value	$2,192.7m	$2,168.9m
Number of properties	97	97
Number of tenants	135	136
Contract rent	$97.2m	$95.6m
Occupancy	100.0%	100.0%
Weighted average lease term	5.32 years	5.40 years
Auckland property	82.3%	81.8%
Industrial property	98.2%	98.2%

PFI's portfolio delivered strong levels of rental growth over the first half of the year.

Rent reviews were completed on 61 leases during the first half of the year, resulting in an average annual uplift of 4.8% on ~$28.7 million of contract rent. CBRE predict[3] industrial rental growth over the next five

[2] All figures are gross and are unadjusted for capitalised expenditure, interest, lease incentives, fees and fixed rental adjustments.
[3] CBRE "Auckland Property Market Outlook", July 2022.

years to average 5.0% per annum for prime properties and 5.1% per annum for secondary properties, up from 3.9% and 5.1% in their December 2021 forecasts.

Around 67,000 square metres or 9.6% of PFI's portfolio by rent was leased during the interim period to 19 new and existing tenants for an average increase in term of 5.4 years. Four new leases and 15 renewals were secured, and across these leasing transactions average leasing costs of 0.2 months per year of term were negotiated. A positive re-leasing spread of around 16% on annual passing rents was achieved, representing an 8.2% increase on December 2021 market rents.

Combined, over 39% of contract rent was reviewed, varied, or leased during the first half 2022.

At the end of the interim period the Company's portfolio was fully occupied, and just 3.9% of contract rent is due to expire in the second half of 2022, with all remaining 2022 expiries either secured, or in advanced stages of negotiation, since the end of the interim period. The leasing market for industrial property remains very strong, with vacancy still at historically low levels. CBRE reports[4] that Auckland industrial vacancy is just 0.5% for prime properties and 0.6% for secondary properties.

Resilient industrial portfolio of scale

11 properties were revalued at the end of the interim period, resulting in fair value gains on those properties of $18.9 million or an average increase of 9.8%. When combined with the revaluation changes for 39 Edmundson Street and 330 Devon Street East as a result of transferring these properties to non-current assets classified as held for sale, the unrealised net increase in the value of investment properties for the six months ended 30 June 2022 was $19.5 million.

As a result of portfolio and valuation activity, PFI's passing yield was largely unchanged at 4.44% and the portfolio's value is now $2.19 billion.

Net tangible assets (NTA) per share increased by 6.2 cents per share from 303.4 cents per share as at the end of 2021 to 309.6 cents per share as at the end of the interim period.

Proactive capital management:

"The first half of the year has been a busy period." says Chief Finance and Operating Officer, Craig Peirce. "We've proactively managed our capital by launching a share buyback programme, extending our Bank of New Zealand loan facility, and entering into a new USPP facility."

With the Company's shares trading at a 21% discount to NTA at the time, PFI announced that it would undertake an on-market share buyback programme (the Buyback Programme) on 25 May 2022. To the end of June 2022, 724,527 shares or approximately 2.9% of the shares able to be purchased under the programme have been purchased, at an average price of $2.4114 per share.

The Buyback Programme has been paused from 1 July 2022, as PFI has entered a blackout period under its Financial Products Trading Policy in relation to its 2022 interim results, and will recommence tomorrow on 23 August 2022, being the day following this interim results announcement. PFI will however continue to assess market conditions, its prevailing share price, available investment opportunities and all other relevant considerations, and reserves the right to further suspend or terminate the Buyback Programme at any time.

PFI also refinanced its $100 million loan facility from the Bank of New Zealand during the interim period, extending the facility expiry date by one year from 2 July 2023 to 2 July 2024. The weighted average term to expiry of PFI's bonds and bank facilities is 3.5 years and the Company has over $120 million of available bank liquidity as at the end of the interim period. Gearing as at 30 June 2022 was 27.6% (covenant: 50%) and the interest cover ratio was 3.9 times (covenant: 2 times) for the year then ended.

Interest rate hedging provides for an average of ~65% of the Company's debt to be hedged at an average fixed rate of ~2.49% for the remainder of 2022, offering protection from rising interest rates.

Post balance date, a USPP facility was established with Pricoa Capital Group (Pricoa), part of Prudential Financial, Inc. (Prudential). Prudential is one of the largest U.S. insurance companies with a 140-year history and ~US$1.1 trillion of assets under management. Establishing this facility with Pricoa provides PFI with access to long-term funding, which the Company may use to finance investment opportunities, including upcoming brownfield opportunities.

Brownfield opportunities progressed

PFI's strategy has four key areas of focus: core generic assets, brownfield opportunities, specialised assets and assets held for sale.

An increasing focus for the PFI team has been the redevelopment of existing holdings, referred to as brownfield opportunities. The Company has around $219 million or 10% of the portfolio held in such opportunities, providing a growing pipeline of medium-term redevelopment projects. In March 2022, the $6.825 million purchase of 318 Neilson Street in Penrose was completed, adding to this stable of assets and providing the opportunity to enable 'drive-round' access to the neighbouring PFI properties at 304 and 306 Neilson Street, improving leasing appeal on redevelopment.

Following the completion of a 3,400 square metre industrial property on surplus land at 47A Dalgety Drive, in Wiri, the PFI team's attention has shifted to the Company's Bowden Road site in Mount Wellington, where significant leasing progress has been made. At this 3.9-hectare property in one of Auckland's prime industrial locations, ~40% of the development has been pre-leased to Tokyo Food for a lease term of 12-years from an estimated practical completion date of June 2024. The Company currently plans to develop the remainder of the site without tenant commitment, and the project has an estimated total cost of up to $75 million, with a targeted yield on cost including land in excess of 5%. The project will target a Five Green Star rating, creating PFI's first fully Green Star rated industrial estate.

78 Springs Road in East Tamaki provides the opportunity for the next significant brownfield project. Multiple warehouse redevelopment and refurbishment options are available on this versatile, heavy industrial zoned, 10.4-hectare site in East Tamaki site that can accommodate large-scale facilities. An October 2024 lease expiry provides PFI the opportunity to invest ~$150 million, split across multiple stages, and PFI will target Five Green Star ratings on all new buildings.

The first half of the year has also seen the divestment of several smaller PFI properties: the divestment of 39 Edmundson Street in Napier settled on 8 July 2022, the divestment of 330 Devon Street East in New Plymouth settles on 25 August 2022 and Shed 22 in Wellington is being marketed for sale. After these planned divestments, PFI will have completed the transition to a pure-play industrial portfolio.

Closing

"Our proactive capital management is providing us with the balance sheet to execute on a growing portfolio of brownfield opportunities." observes PFI Chairman, Anthony Beverley. "At the same time, PFI has delivered a stable operating result, with the Company's resilient industrial $2.2 billion portfolio delivering strong rental growth and growing dividends. Looking forward, we believe that PFI is well placed to respond to challenges, but just as importantly, the Company is ready to take advantage of opportunities that will no doubt present themselves."

ENDS

ABOUT PFI & CONTACT

PFI is an NZX listed property vehicle specialising in industrial property. PFI's nationwide portfolio of 97 properties is leased to 135 tenants.

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Attachments

NZX Form – Results Announcement
NZX Form – Distribution Notice
Interim Results Presentation
Interim Financial Statements

Appendices

Appendix 1 – FFO and AFFO Calculations

Funds / Adjusted Funds From Operations **(unaudited, $000, unless noted)**	**For the six months ended 30 June 2022**	**For the six months ended 30 June 2021**
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	**23,778**	**273,542**
Adjusted for:		
Fair value loss / (gain) on investment properties and AHFS	(19,451)	(248,196)
Material damage insurance income	-	(540)
Loss on disposal of investment properties and AHFS	131	4
Fair value (gain) / loss on derivative financial instruments	(14,293)	(4,912)
Amortisation of tenant incentives	1,441	1,626
Straight lining of fixed rental increases	(681)	(826)
Deferred taxation	5,934	6,210
Goodwill impairment	29,086	
Other	(1)	(1)
Funds From Operations (FFO)	**25,944**	**26,907**
FFO per share (cents)	**5.13**	**5.36**
Maintenance capex	(1,051)	(1,432)
Incentives and leasing fees given for the period	(1,556)	(2,082)
Other (incl. reversal of accounting entries for COVID-19 abatement and deferral deals)	129	261
Adjusted Funds From Operations (AFFO)	**23,466**	**23,654**
AFFO per share (cents)	**4.64**	**4.71**

Appendix 2 – FFO and AFFO Dividend Pay-out Ratios

	2022	2021
Full year dividends per share (cents, 2022 = guidance, 2021 = actuals)	8.10	7.90
Pro-rata share of full year dividends per share (cents, 2022 = 50% of guidance, 2021 = 50% of actuals)	4.05	3.95
FFO dividend pay-out ratio (%)	**79%**	**74%**
AFFO dividend pay-out ratio (%)	**87%**	**84%**