

PFI ANNOUNCES RECORD ANNUAL RESULTS

The PFI management team will present the results via live webcast from 10am NZT on 21 February 2022. To view and listen to the webcast, please visit <https://edge.media-server.com/mmc/p/gtftp2aq>. Anyone wishing to participate in the webcast (for example, to ask a question) must pre-register for the conference call at <https://apac.directeventreg.com/registration/event/6363677>. 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

- **Record annual results:** fair value gains on properties of \$392.5 million contributing to a record profit after tax of \$452.8 million, Funds From Operations (FFO)¹ earnings up 14.4% from the prior year to 11.07 cents per share, Adjusted Funds From Operations (AFFO) earnings up 15.7% from the prior year to 9.29 cents per share, cash dividends of 7.90 cents per share, up 2.6% on 2020 dividends
- **Strong balance sheet:** net tangible assets up 37.3% to 303.4 cents per share, gearing of 27.7%, all bank facilities refinanced during the year and increased by \$125 million, over \$120 million of available liquidity
- **Refreshed strategy progressed:** refreshed strategy announced and progressed with \$368 million of capital transactions
- **Significant brownfield opportunities:** \$224 million or 10% of the portfolio held in brownfield opportunities, providing a growing pipeline of medium-term development opportunities
- **Fully occupied industrial property portfolio of scale:** fully occupied industrial property portfolio with a value in excess of \$2.15 billion, weighted towards the buoyant Auckland industrial market
- **Further growth in dividends:** strategy progression, a fully occupied industrial property portfolio of scale and buoyant industrial property market conditions result in targeted 2022 dividend range of 8.05 to 8.10 cents per share, a further increase of up to 2.5% on 2021 dividends

Property for Industry Limited (PFI, the Company) today announced record annual results for the year ended 31 December 2021.

“We are pleased to announce record annual results following one of our busiest years yet. The PFI team made excellent progress against the Company’s refreshed strategy.” says PFI Chief Executive Officer, Simon Woodhams.

Record annual results

PFI generated a record profit after tax for the year of \$452.8 million (89.97 cents per share), up from \$113.5 million (22.71 cents per share) in the prior year. A \$392.5 million fair value gain on investment properties, as compared to a \$72.5 million fair value gain in the prior year, was a large contributor to these record annual results.

Net rental income of \$94.3 million was up \$10.1 million or 12.0% on the prior year, with acquisition activity contributing \$7.3 million to this increase.

This increase in net rental income has contributed to an increase in FFO earnings to 11.07 cents per share, up 1.40 cents per share or 14.4% on the prior year. AFFO earnings of 9.29 cents per share were

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.

up 1.26 cents per share or 15.7% when compared to the prior year, with a reduced level of non-recoverable property costs also contributing to that increase.

That being the case, the PFI Board today resolved to pay a fourth quarter final cash dividend of 2.4500 cents per share. The dividend will have imputation credits of 0.2501 cents per share attached and a supplementary dividend of 0.1135 cents per share will be paid to non-resident shareholders. The record date for the dividend is 28 February 2022, and the payment date is 9 March 2022. The dividend reinvestment scheme will not operate for this dividend.

The fourth quarter dividend will take cash dividends for the year to 7.90 cents per share, up 2.6% on 2020 dividends, resulting in an FFO dividend pay-out ratio of 71% (2020: 80%) and an AFFO dividend pay-out ratio of 85% (2020: 96%, refer Appendix 3). The dividend pay-out ratio, based on PFI's revised dividend policy, is 92% of AFFO on rolling three-year historic average basis.

Strong balance sheet

Net tangible assets (NTA) per share increased by 82.5 cents per share or 37.3% from 220.9 cents per share as at the end of 2020 to 303.4 cents per share as at the end of the year, breaking the \$3 per share mark for the first time in the Company's history. The \$392.5 million increase in the fair value of investment properties contributed 77.7 cents per share to this increase.

All the Company's bank facilities were refinanced during the year, and a further \$125 million of facilities was added. The weighted average term to expiry of PFI's bonds and bank facilities is 3.9 years and the Company has over \$120 million of available liquidity as at the end of the year. Year-end gearing² is just 27.7% and the interest cover ratio³ for the year was 4.4 times.

"Additional facilities, backed up by our significant portfolio revaluation, and coupled with the proceeds from the recent Carlaw Park settlement, provided us with significant capital. We've drawn on these resources to secure quality industrial properties such as those in Wiri and Hastings," says Chief Finance and Operating Officer, Craig Peirce. "At the same time, we've been able to push out our weighted average term to expiry to 3.9 years for our bonds and bank facilities, which has given us additional certainty as we grow."

Refreshed strategy progressed

At the Company's annual meeting in May, Simon Woodhams outlined a refreshed strategy for PFI, with four areas of focus: core generic assets, brownfield opportunities, specialised assets and assets held for sale. With the refreshed strategy in place, it was a busy year for transactions, with close to \$253 million in acquisitions and value-add opportunities, and the divestment of Carlaw Park in December, capping off a year of \$368 million in capital transactions.

First, the purchase of a "core generic" asset located at 670-680 Rosebank Road in Avondale, Auckland for \$39.0 million was completed in January 2021.

Then in May, PFI acquired a prime industrial property located at 44 Noel Burnside Road in Wiri, Auckland for \$91.7 million. The property was leased for an initial two-year period, and because of the shorter lease, and the potential for an expiry in two years, the PFI team viewed the purchase as a "brownfields opportunity". In October, a new 10-year lease was secured with Cottonsoft, accordingly this property has now moved into the "core generic assets" classification.

Later on in the year in November, the Company acquired a 9.56-hectare site in the Hawkes Bay from

² That is, total borrowings as a percentage of the most recent independent valuation of the property portfolio. Covenant: 50%.

³ That is, the ratio of interest expense and bank fees to operating earnings excluding interest expense and bank fees. Covenant: 2 times.

T&G Global (T&G) in a 15-year sale-and-lease-back for \$79.5 million. This “specialised asset” accommodates in excess of 36,000 square metres of T&G’s post-harvest operations, including a packhouse, two cool stores, warehousing and 3.7 hectares of storage yard.

Two other smaller purchases at Honan Place and Rosebank Road in Avondale were completed towards the end of the year. These properties connect to other PFI properties in the area, providing opportunities to unlock future value across expanded sites in the medium term.

Significant brownfield opportunities

An increasing focus for the PFI team will be the redevelopment of existing holdings. The Company has around \$224 million or 10% of the portfolio held in such opportunities, providing a growing pipeline of medium-term redevelopment projects.

Following the completion of a 3,400 square metre industrial property on surplus land at 47a Dalgety Drive, in Wiri, the PFI team are focusing on the Company’s Bowden Road site in Mount Wellington. This 3.9-hectare site in one of Auckland’s prime industrial locations, with excellent transport links and dual road frontages, can accommodate large-scale or multiple tenant designs of ~20,000 square metres. A March 2023 lease expiry provides PFI access to this significant redevelopment opportunity, which could involve an investment of ~\$50 million.

Other brownfield opportunities within the portfolio will allow the Company to unlock parcels of land in key industrial precincts, providing the opportunity to deploy balance sheet capacity into earnings accretive projects. As these projects complete and long-term leases are secured, the properties will be moved into “core generic” classification.

Fully occupied industrial property portfolio of scale

Portfolio snapshot as at	31 December 2021	31 December 2020
Book value	\$2,168.9m	\$1,631.5m
Number of properties	97	94
Number of tenants	136	148
Contract rent	\$95.6m	\$89.8m
Occupancy	100.0%	99.4%
Weighted average lease term	5.40 years	5.28 years
Auckland property	81.8%	84.6%
Industrial property	98.2%	91.7%

Further to the valuation announcement in December, PFI recorded an annual increase in the value of its property portfolio from independent valuations of \$392.5 million or 22.2% to \$2,168.9 million. Around 90% of the valuation outcome was due to movements in yields or cap rates. As a result of portfolio and valuation activity, PFI’s passing yield firmed from 5.53% to 4.41%. An independent market rental assessment of the entire portfolio was completed as part of the valuation process, this assessment estimates that PFI’s portfolio is around 3% under-rented.

Around 150,000 square metres of PFI’s portfolio was leased during the year to 29 new and existing tenants for an average increase in term of 6.7 years. 10 new leases and 19 renewals were secured, and across these leasing transactions average leasing costs of half a month per year of term was negotiated. A positive re-leasing spread of around 12% on annual passing rents was achieved on stabilised renewals. Rent reviews were completed on 114 leases during the year, resulting in an average annual uplift of 3.5% on ~\$66.5 million of contract rent. Combined, over 84% of contract rent was reviewed, varied, or leased during 2021.

At the end of the year the Company's portfolio was fully occupied, and just 6.4% of contract rent is due to expire during 2022. In addition, almost 70% of the Company's portfolio is subject to a rent review during 2022, including CPI-based rent reviews on 11.2% of the portfolio.

The leasing market for industrial property remains very strong, with vacancy still at historically low levels. CBRE reports⁴ that total Auckland industrial vacancy is just 0.5%, down from 1.0% as at the end of June 2021. Furthermore, they predict⁵ industrial rental growth over the next five years to average 3.9% per annum for prime properties and 3.7% per annum for secondary properties, in line with their June 2021 forecasts.

Further growth in dividends

Strategy progression, a fully occupied industrial property portfolio of scale and buoyant industrial property market conditions mean that the PFI Board expects to declare 2022 cash dividends of between 8.05 and 8.10 cents per share, a further increase of up to 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 8.05 to 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 or further material COVID-19 restrictions, other than those in place as at the date of this announcement.

Closing

"The Company's continued focus on industrial property has coincided with ongoing investor interest and tenant demand that has enabled us to grow significantly," observes PFI Chairman, Anthony Beverley. "We are pleased to have capitalised on these market conditions while keeping gearing low. Our refreshed strategy and the changes in our dividend policy will give us that extra degree of flexibility to enhance and expand our portfolio in order to continue growing cash returns for investors."

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 136 tenants.

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⁴ CBRE "Auckland Industrial Space Market Trends", February 2022

⁵ CBRE "Auckland Property Market Outlook", December 2021

Attachments

NZX Form – Results Announcement
 NZX Form – Distribution Notice
 Annual Results Presentation
 Annual Report

Appendices

Appendix 1 – FFO and AFFO Calculations

Funds / Adjusted Funds From Operations (unaudited, \$000, unless noted)	For the year ended 31 December 2021	For the year ended 31 December 2020
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	452,810	113,452
<i>Adjusted for:</i>		
Fair value loss / (gain) on investment properties	(392,519)	(72,546)
Material damage insurance income	(900)	(5,073)
Loss / (gain) on disposal of investment properties	(2,636)	14
Fair value loss / (gain) on derivative financial instruments	(12,271)	(643)
Amortisation of tenant incentives	3,243	2,841
Straight lining of fixed rental increases	(1,417)	(1,882)
Deferred taxation	9,412	12,175
Other	1	2
Funds From Operations (FFO)	55,723	48,340
FFO per share (cents)	11.07	9.67
Maintenance capex	(3,946)	(2,977)
Incentives and leasing fees given for the period	(5,065)	(4,225)
Other (incl. reversal of accounting entries for COVID-19 abatement and deferral deals)	33	(1,010)
Adjusted Funds From Operations (AFFO)	46,745	40,128
AFFO per share (cents)	9.29	8.03

Appendix 2 – FFO and AFFO Dividend Pay-out Ratios

	2021	2020
Full year dividends per share (cents)	7.90	7.70
FFO dividend pay-out ratio (%)	71%	80%
AFFO dividend pay-out ratio (%)	85%	96%

Appendix 3 – Rolling three-year AFFO Dividend Pay-out Ratios

	2021	2020	2019	2018	2017
Rolling three-year AFFO dividend pay-out ratio (%)	92%	98%	99%	102%	101%