



YOUR INDUSTRIAL  
PROPERTY EXPERTS

# WELCOME

TO THE **2017** INTERIM RESULTS BRIEFING



# **AGENDA**

**01. HIGHLIGHTS**

**02. PORTFOLIO**

**03. MARKET & STRATEGY**

**04. 2017 INTERIM RESULTS**

**05. CAPITAL MANAGEMENT**

**06. REVIEW & QUESTIONS**

**07. APPENDICES**





**01.**  
**HIGHLIGHTS**



# HIGHLIGHTS



- Internalisation of management on 30 June 2017
- Increased guidance: distributable profit of between 7.70 and 7.90 cents per share, cash dividend of 7.45 cents per share
- Transition of the Penrose portfolio: approximately \$13 million of shareholder value created equating to a property level internal rate of return of approximately 24%







# 02. PORTFOLIO

# PORTFOLIO SNAPSHOT



- PFI's portfolio is diversified across 83 properties and 144 tenants, with 99.5% occupancy and a weighted average lease term of 4.78 years, weighted towards Auckland industrial property

	30 June 2017	31 December 2016	30 June 2016
Book value	\$1,096.0m	\$1,083.3m	\$1,010.1m
Number of properties	83	83	84
Number of tenants	144	143	142
Contract rent	\$73.2m	\$72.5m	\$72.6m
Occupancy	99.5%	99.6%	99.5%
Weighted average lease term	4.78 years	4.79 years	4.87 years
Auckland property	85.3%	85.3%	84.8%
Industrial property	85.4%	85.5%	85.0%

# PORTFOLIO PERFORMANCE

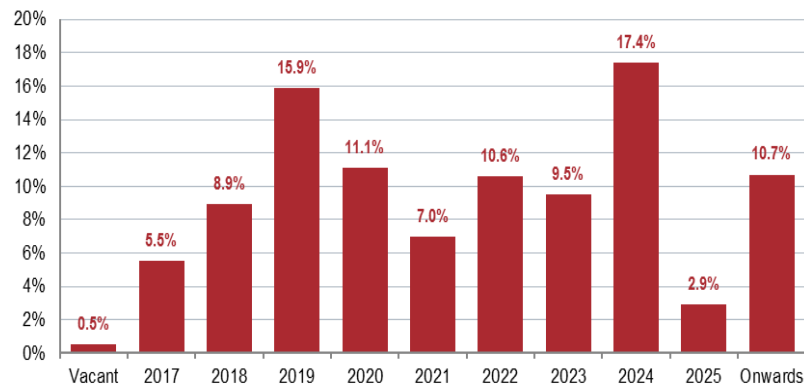


- Valuations:
  - Full valuations for seven properties that were the subject of significant leasing resulted in \$6.0 million or 9.8% uplift on those properties, independent desktop review of remainder of portfolio
- Leasing:
  - 11 leases agreed over ~33,000 sqm of space for an average term of 6.0 years
  - 41 rent reviews, average annual uplift of ~2.4% on ~\$16.7 million of contract rent

Tenant	Address	Term	Area	% Rent Roll
Hewlett-Packard	2 Pacific Rise, Mt Wellington	1.7 years	2,799 sqm	1.3%
Wellington Hospitality	Shed 22, 23 Cable Street, Wellington	15.0 years	2,816 sqm	1.1%
MOTAT	10 Autumn Place, Penrose	7.0 years	7,646 sqm	0.9%
True North	7 Vestey Drive, Mt Wellington	6.0 years	4,598 sqm	0.7%
Wakefield Metals	314 Neilson Street, Penrose	9.0 years	3,515 sqm	0.5%
Hills	15a Vestey Drive, Mt Wellington	4.0 years	2,373 sqm	0.5%
5 other transactions, all for leases with contract rent of <\$0.30m		4.7 years	9,105 sqm	1.1%
11 leasing transactions	Various	6.0 years	32,852 sqm	6.1%

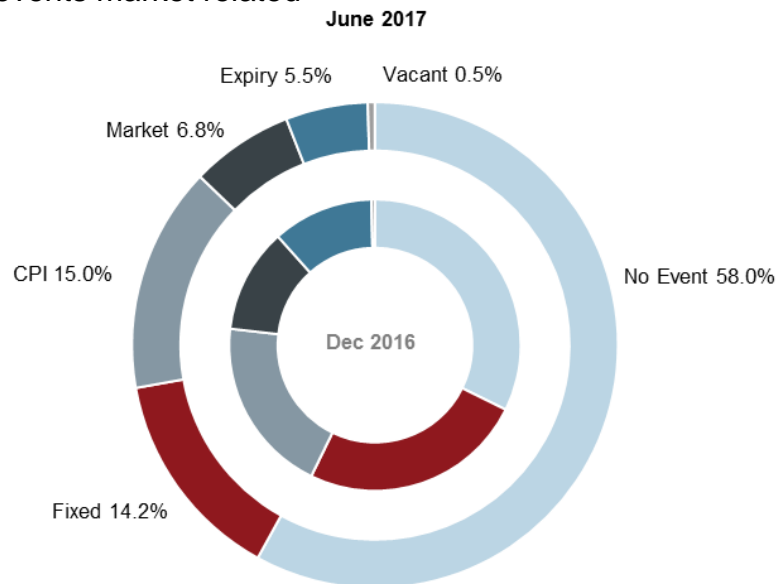
# LEASE EVENTS

- Near term leasing outlook remains positive
- At 30 June 2017 just 5.5% of contract rent is due to expire during H2 2017



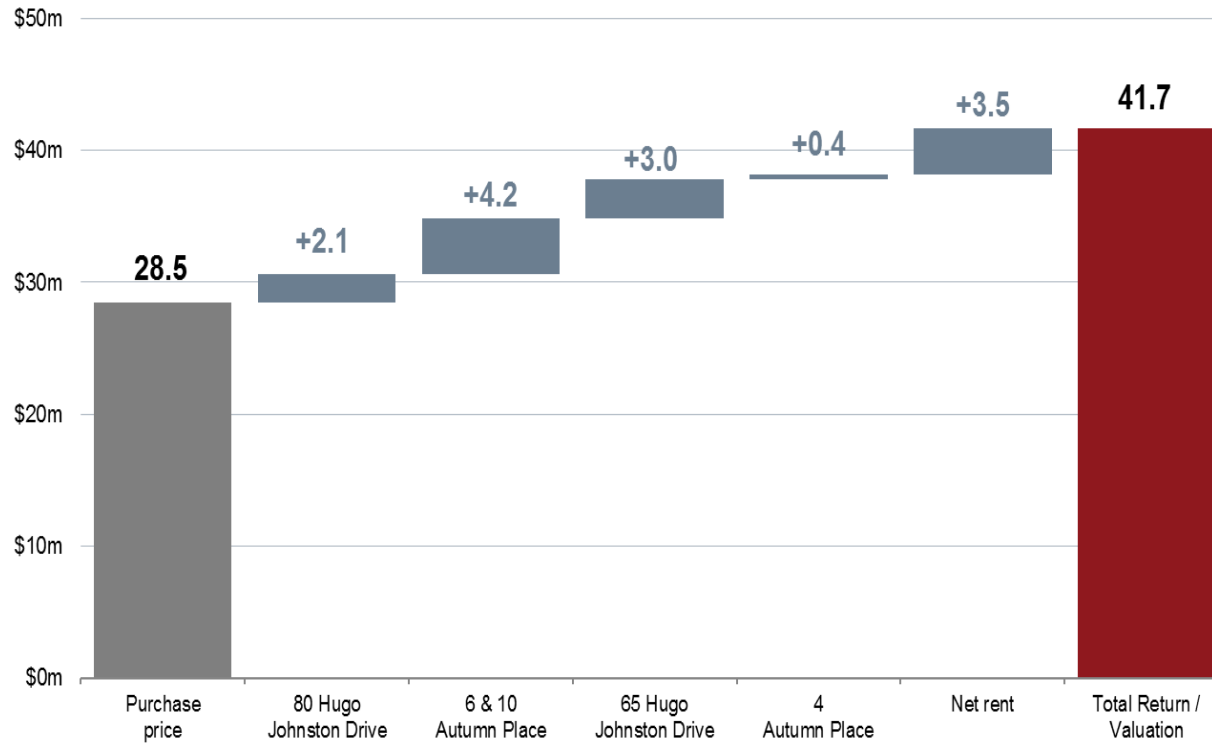
- Since 30 June 2017 a further 1.8% of 2017 expiries and 0.2% of vacancy has been leased
- Additional 1.3% of 2017 expiries are in advanced stages of negotiation

- ~42% of PFI's portfolio subject to some form of lease event during H2 2017
- Balanced spread of lease events, ~13% of H2 2017 events market related





# PENROSE PORTFOLIO



- Portfolio of five Penrose properties purchased in August 2015
- 93% of the properties have been transitioned
- ~\$13 million of shareholder value has been created
- Property level internal rate of return of around 24%



**03.**  
**MARKET**  
**& STRATEGY**



- The New Zealand economy appears to be in good shape:
  - ANZ: current economic cycle mature, but annual GDP growth ~3% over 2017 expected, well above developed world average
- Economic growth translating into high levels of occupier demand for industrial property:
  - CBRE: Auckland industrial vacancy just 1.7% or 210,000 sqm, new rental benchmarks being set for prime grade assets, rental growth of ~3% for secondary grade assets in Q1 2017
- Industrial property confidence increased across the board:
  - Colliers International: July 2017 Commercial Property Investor Confidence Survey shows Auckland's industrial investor confidence was the highest at a net positive of 60%
- Mix of strong economic growth, favourable occupier supply and demand dynamics and high levels of investor market confidence resulted in industrial property yields falling a further ~30 basis points (0.3%) in the first six months of 2017 (CBRE)

- PFI has always invested in quality industrial property in prime locations, believing that this investment focus has the potential to deliver attractive returns with a low level of volatility
- Retention of existing team as part of internalisation ensures continuity of PFI's successful strategy
- We aim to drive shareholder returns by:
  - **Active asset management:** Managing the vacancy and upcoming lease expiries
  - **Acquisitions:** Opportunistically pursuing both core and value-add industrial acquisitions
  - **Development:** Maximising utilisation of the portfolio
  - **Divestments:** Divesting of non-core assets when value is maximised and an opportunity to recycle capital into industrial property arises





# DIVESTMENTS

- ~\$47 million of divestments over the last three years, including:
  - 65 Hugo Johnston Drive, Penrose sold during H1 2017 to an owner occupier for \$14.3 million, \$1.9 million gain on sale represented a 17.8% premium above the December 2016 book value
- Approximately 5% of the portfolio still considered non-core, PFI may look to divest over the medium term as and when value has been maximised



# ACQUISITIONS & DEVELOPMENTS



- ~\$77 million of acquisitions over the last three years, including:
  - Acquisition of 11 Turin Place, East Tamaki for \$14.2 million in February 2017, 6.5% yield, 15 years, fixed rent reviews, 4.55% every two years
- ~\$34 million of developments over the last three years, recently committed to:
  - Development on surplus land at 212 Cavendish Drive, Manukau of a \$5.0 million generic storage and distribution warehouse, due to complete July 2018, expected return on cost of ~7.5%

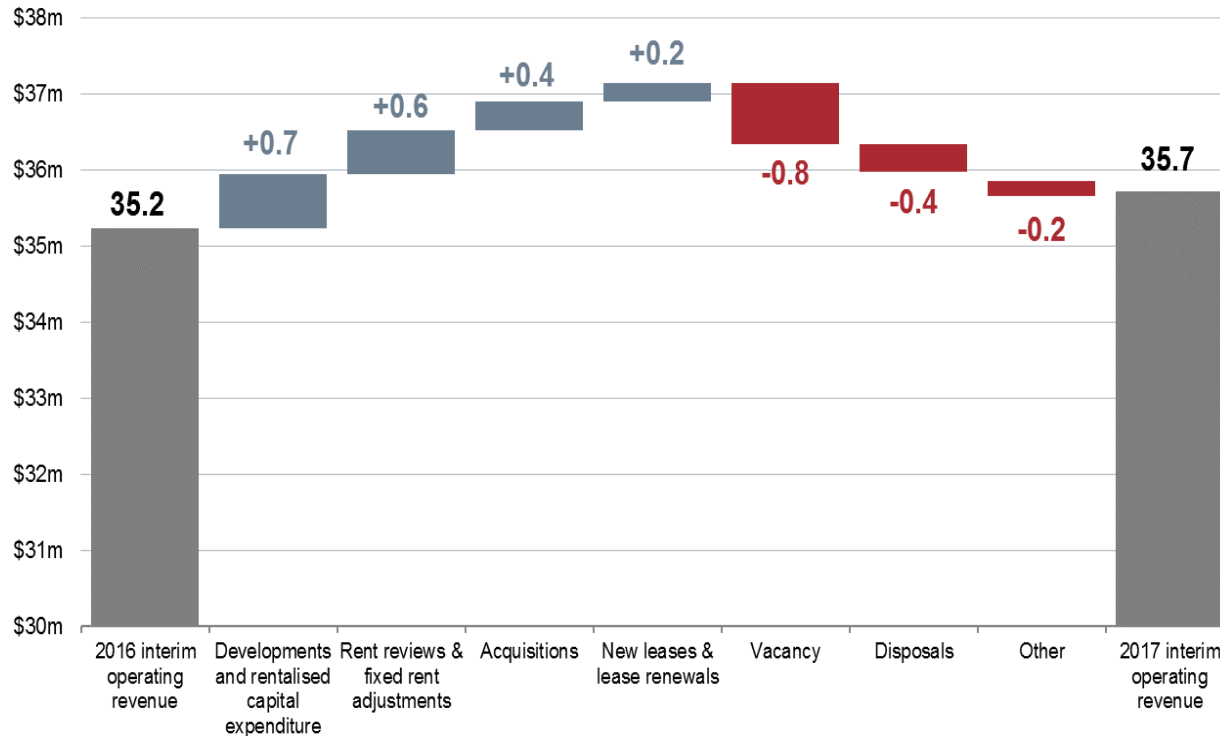




A photograph of a paper mill factory floor. In the foreground, a green forklift is moving a pallet of paper, creating a motion blur effect. The floor is filled with numerous stacks of paper on pallets, some wrapped in plastic. In the background, there are various pieces of industrial machinery, including a large machine labeled 'LITHRONE 40'. A worker in a dark vest and yellow shirt is visible near the machinery. The overall scene is a busy industrial environment.

# 04. 2017 INTERIM RESULTS

# OPERATING REVENUE



- Operating revenues of \$35.7 million up \$0.5 million or 1.4%
- Increases due to completed developments (\$0.7 million), positive leasing activity (\$0.8 million) and acquisitions (\$0.4 million)
- Decreases due to increased vacancy (\$0.8 million) and disposals (\$0.4 million) and other (\$0.2 million)
- Transition of the portfolio of five Penrose properties from prior tenant Sistema to new tenants contributed ~\$0.6 million to the increase in vacancy (refer slide 9)

# COMPREHENSIVE INCOME

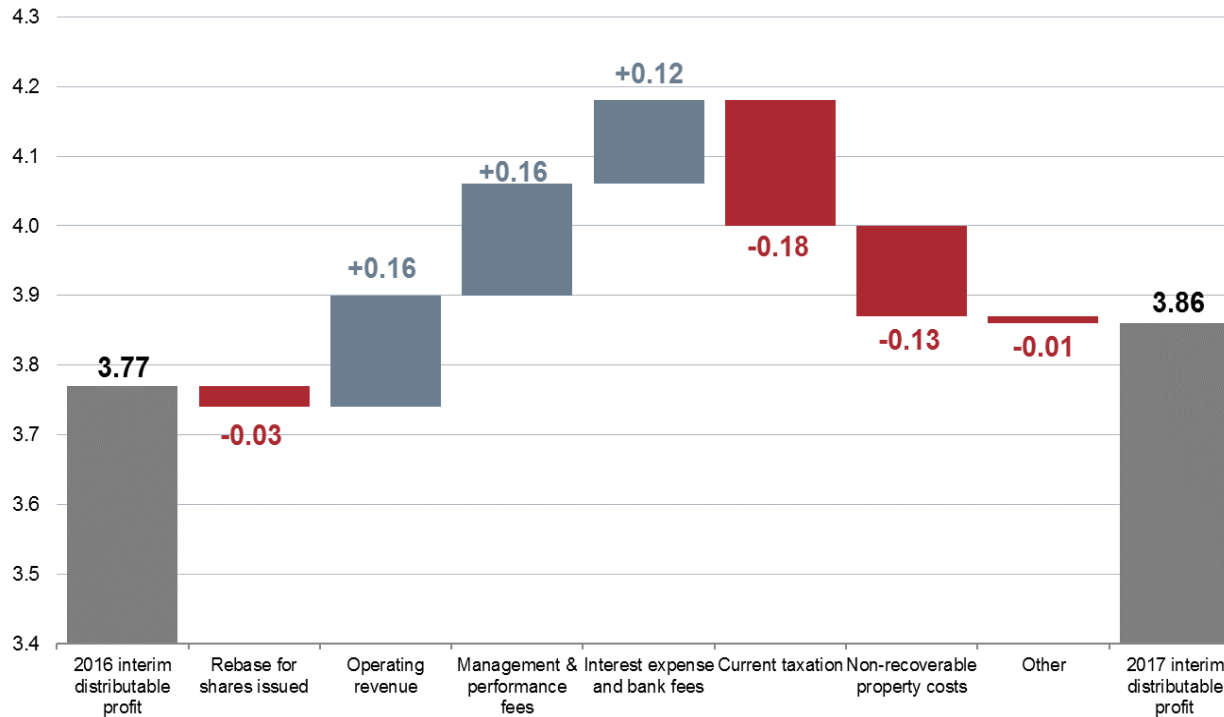


For the six months ended (unaudited, \$000)	Jun 17	Jun 16	Change
<b>Total operating revenue</b>	<b>35,714</b>	<b>35,228</b>	<b>486</b>
Non-recoverable property costs	(1,461)	(894)	(567)
Interest expense and bank fees	(8,388)	(8,913)	525
Management fees	(2,919)	(3,623)	704
Other expenses	(690)	(622)	(68)
<b>Total operating expenses</b>	<b>(13,458)</b>	<b>(14,052)</b>	<b>594</b>
<b>Total operating earnings</b>	<b>22,256</b>	<b>21,176</b>	<b>1,080</b>
Fair value gain on investment properties	5,970	10,623	(4,653)
Gain / (loss) on disposal of investment properties	1,897	(6)	1,903
Material damage insurance income	505	-	505
Fair value loss on derivative financial instruments	(582)	(7,131)	6,549
Termination of management agreement	(42,869)	-	(42,869)
<b>Total non-operating income and expenses</b>	<b>(35,079)</b>	<b>3,486</b>	<b>(38,565)</b>
<b>(Loss) / profit before taxation</b>	<b>(12,823)</b>	<b>24,662</b>	<b>(37,485)</b>
Current taxation	-	(3,892)	3,892
Deferred taxation	7,186	1,721	5,465
<b>Total income tax benefit / (expense)</b>	<b>7,186</b>	<b>(2,171)</b>	<b>9,357</b>
<b>(Loss) / profit after income tax</b>	<b>(5,637)</b>	<b>22,491</b>	<b>(28,128)</b>

- Operating revenues up \$0.5 million or 1.4%, refer slide 16: operating revenue
- Operating expenses down \$0.6 million or 4.2%, due to management fees (\$0.7 million), interest expense and bank fees (\$0.5 million)
- Higher non-recoverable property costs (\$0.6 million) due to increased vacancy and asbestos testing programme
- Termination of management agreement \$42.9 million, recorded in interim financial statements, if removed, profit after tax would be \$25.2 million or 5.58 cents per share, up 12.2% on H1 2016 (refer Appendix 1)



# DISTRIBUTABLE PROFIT (CENTS PER SHARE, CPS)



- Distributable profit per share up 0.09 cps or 2.4%
- H1 2017 dividends of 3.50 cps, in line with H1 2016
- Increased earnings guidance: full year distributable profit increased from 7.50 to 7.70 cps to 7.70 to 7.90 cps.

1. Distributable profit is non-GAAP financial information used by the PFI Board to assist in determining dividends to shareholders. Refer: Note 4.1 of Interim Financial Statements.

# FUNDS / ADJUSTED FUNDS FROM OPERATIONS

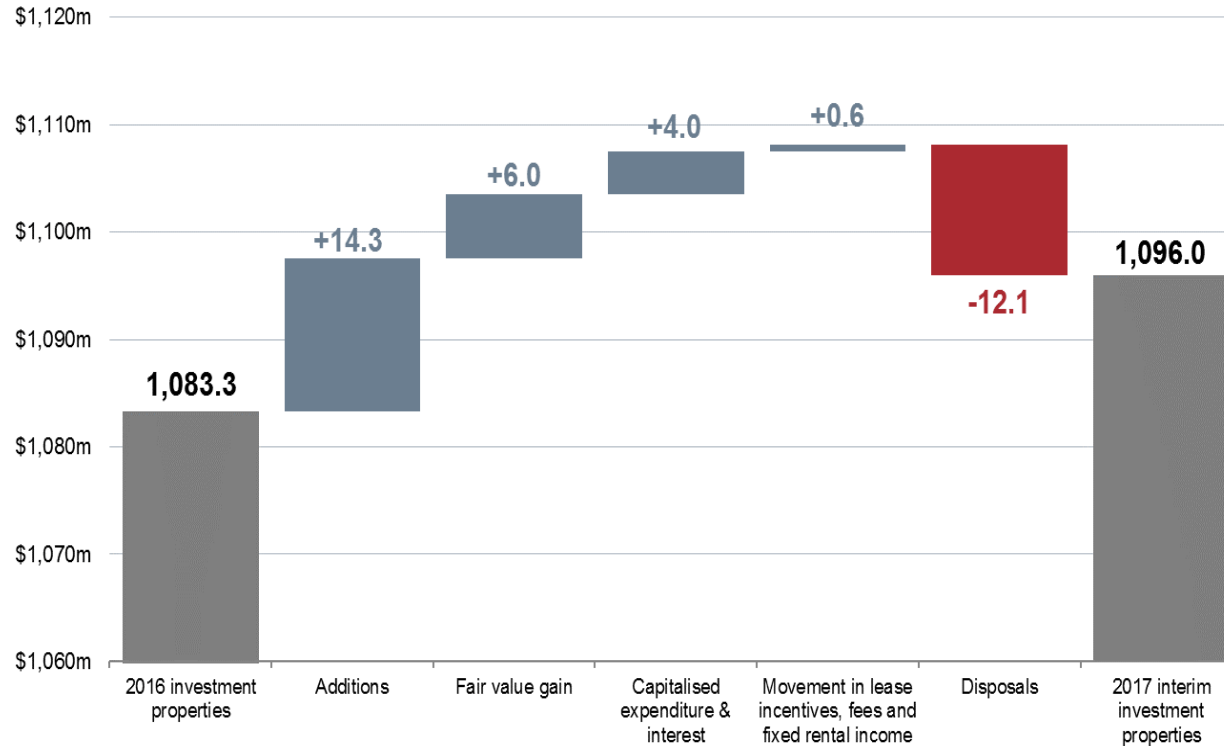


(Unaudited, \$000, unless noted)	6ME Jun 2017	12ME Dec 2016
(Loss) / profit and total comprehensive income after income tax attributable to the shareholders of the Company	(5,637)	123,412
<i>Adjusted for:</i>		
Fair value gain on investment properties	(5,970)	(88,214)
Material damage insurance income	(505)	-
Gain on disposal of investment properties	(1,897)	(302)
Fair value loss / (gain) on derivative financial instruments	582	(433)
Amortisation of tenant incentives	1,053	1,973
Straight lining of fixed rental increases	(138)	(607)
Deferred taxation	(7,186)	136
Termination of management agreement	42,869	-
Current taxation without deductibility of termination of management agreement	(4,725)	-
<b>Funds from operations (FFO)</b>	<b>18,446</b>	<b>35,965</b>
<b>FFO per share (cents)</b>	<b>4.08</b>	<b>7.99</b>
<b>FFO dividend pay-out ratio</b>	<b>86%</b>	<b>92%</b>
Maintenance capex	(1,413)	(2,962)
Incentives and leasing fees given for the period	(1,495)	(1,729)
Other	(6)	(12)
<b>Adjusted funds from operations (AFFO)</b>	<b>15,532</b>	<b>31,262</b>
<b>AFFO per share (cents)</b>	<b>3.43</b>	<b>6.95</b>
<b>AFFO dividend pay-out ratio</b>	<b>102%</b>	<b>106%</b>

- Funds From Operations (FFO) earnings of 4.08 cps and Adjusted Funds From Operations (AFFO), earnings of 3.43 cps
- FFO dividend pay-out ratio of 86%, AFFO dividend pay-out ratio of 102%
- “... the PFI Board is looking to balance the competing priorities of maintaining or gradually increasing cash dividends, whilst at the same time seeking to grow AFFO earnings to cover those dividends.”
- Increased dividend guidance: from at least 7.35 cps to 7.45 cps

1. FFO and AFFO are non-GAAP financial information and are common investor metrics, which have been calculated in accordance with the guidelines issued by the Property Council of Australia.

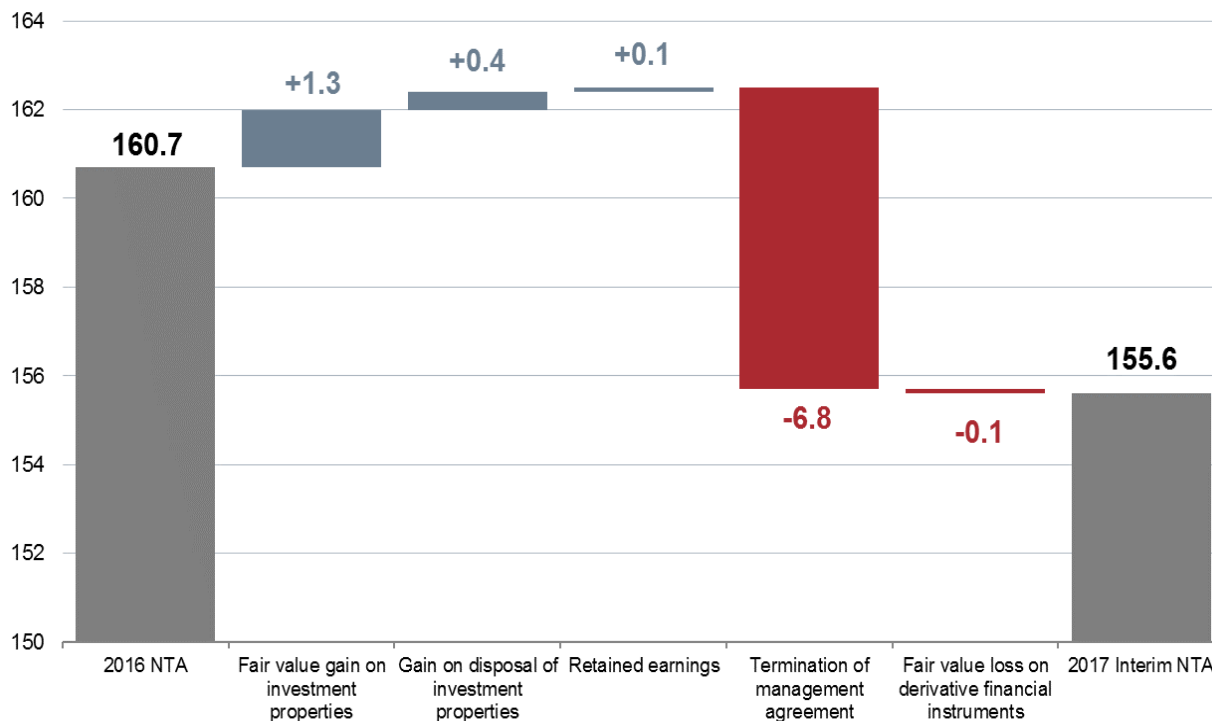
# INVESTMENT PROPERTIES



- Portfolio value of ~ \$1.1 billion
- Acquisition of 11 Turin Place offset by divestment of 65 Hugo Johnston (refer slides 13 and 14 for details)
- Fair value gain of \$6.0 million or 9.8% (refer slide 7 for details)



# NET TANGIBLE ASSETS (CENTS PER SHARE, CPS)



- Net tangible assets (NTA) per down 5.1 cps or 3.2% to 155.6 cps
- Increase in NTA due to increase in the fair value of investment properties (1.3 cps) and a gain on the disposal of PFI's property at 65 Hugo Johnston Drive (0.4 cents per share cps)
- Decrease in NTA due to net internalisation payment (6.8 cps), if removed, NTA would be 162.5 cps, up 1.8 cps or 1.1% over the first six months of 2017 (refer Appendix 1)

1. Refer: Appendix 2: Financial Position for further detail.



# 05. CAPITAL MANAGEMENT

# CAPITAL MANAGEMENT



- \$40m short term facility obtained for internalisation
- Considering options incl. senior secured bond issue to extend and diversify borrowings

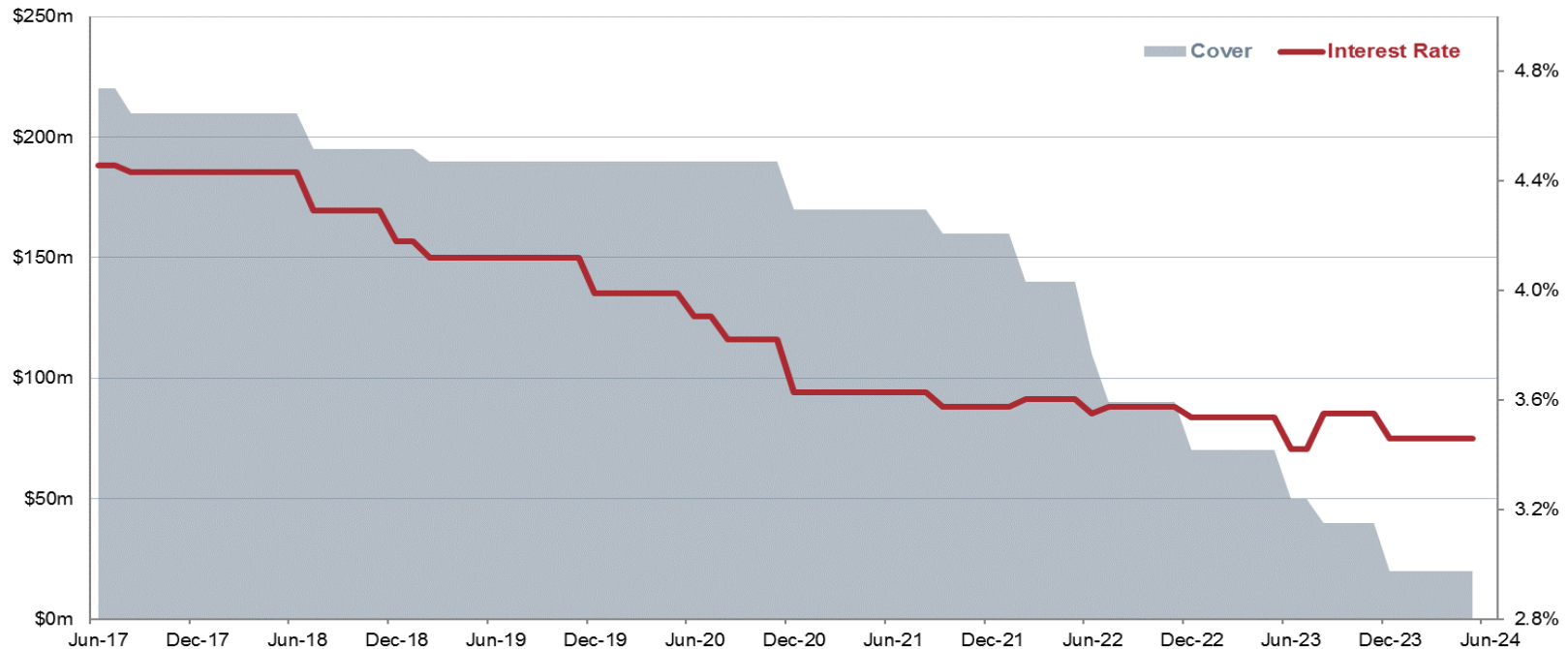
	Jun 2017	Dec 2016
<b>Facilities</b>		
Drawn (excluding overdraft)	\$373.6m	\$333.7m
Facilities limit	\$415.0m	\$375.0m
Facilities headroom	\$41.4m	\$41.3m
Facilities term (average)	3.1 years	3.8 years
Facilities banks	ANZ, BNZ, CBA, Westpac	ANZ, BNZ, CBA, Westpac
<b>Covenants</b>		
Gearing	34.2%	30.1%
Interest cover ratio	3.6 times	3.4 times
<b>Interest rates</b>		
Weighted average cost of debt (including margin and fees)	4.78%	5.24%
Interest rate hedging (excluding forward starting hedging, \$m / rate / duration)	\$220m / 4.46% / 2.8 years	\$243m / 4.53% / 3.0 years
Interest rate hedging (forward starting hedging, \$m / rate / duration)	\$130m / 3.59% / 3.3 years	\$70m / 3.54% / 2.9 years



# INTEREST RATE HEDGING



- Weighted average cost of debt reduced to 4.78% at the end of the interim period
- Fair value of PFI's interest rate hedging largely unchanged from year-end (\$10.5m liability)



A close-up photograph of a person's hand wearing a white knitted glove with a yellow elastic wristband. The hand is holding a small, brown, textured object, possibly a piece of wood or a small animal, on top of a stack of papers. The background is blurred, showing what appears to be a filing cabinet or office shelves. The text '06. REVIEW & QUESTIONS' is overlaid on the left side of the image in a bold, white, sans-serif font. A red horizontal bar is visible on the far left edge of the image.

**06.  
REVIEW  
& QUESTIONS**

- PFI's strategy is to invest in quality industrial property in New Zealand's main urban centres and the Company aims to deliver strong, stable shareholder returns
- Highlights of the first half of 2017:
  - Internalisation of management on 30 June 2017
  - Increased guidance: distributable profit of between 7.70 and 7.90 cents per share, cash dividend of 7.45 cents per share
  - Transition of the Penrose portfolio: approximately \$13 million of shareholder value created equating to a property level internal rate of return of approximately 24%
- Questions?





# 07. APPENDICES

# APPENDIX 1: EPS & NTA EXCL. INTERNALISATION



Earnings per share (unaudited, \$000)	For the six months ended 30 June 2017	For the six months ended 30 June 2016
<b>Total comprehensive income attributable to the shareholders of the Company</b>	<b>(5,637)</b>	<b>22,491</b>
<i>Adjusted for internalisation:</i>		
Termination of management agreement	42,869	-
Tax benefit of termination of management agreement	(12,003)	-
<b>Adjusted total comprehensive income attributable to the shareholders of the Company</b>	<b>25,229</b>	<b>22,491</b>
<b>Weighted average number of ordinary shares (shares)</b>	<b>452,458,592</b>	<b>448,877,680</b>
<b>Adjusted basic and diluted earnings per share (cents)</b>	<b>5.58</b>	<b>5.01</b>
<b>Net tangible assets per share (\$000)</b>	<b>Unaudited June 2017</b>	<b>Audited December 2016</b>
<b>Net tangible assets</b>	<b>704,222</b>	<b>727,052</b>
<i>Adjusted for internalisation:</i>		
Termination of management agreement	42,869	-
Tax benefit of termination of management agreement	(12,003)	-
<b>Adjusted net tangible assets</b>	<b>735,088</b>	<b>727,052</b>
<b>Closing shares on issue (shares)</b>	<b>452,458,592</b>	<b>452,458,592</b>
<b>Adjusted net tangible assets per share (cents)</b>	<b>162.5</b>	<b>160.7</b>

## APPENDIX 2: FINANCIAL POSITION



As at (\$'000, unless noted)	Unaudited Jun 2017	Audited Dec 2016	Change
Investment properties	1,095,989	1,083,300	12,689
Goodwill	29,086	29,086	-
Other assets	9,450	9,413	37
<b>Total assets</b>	<b>1,134,525</b>	<b>1,121,799</b>	<b>12,726</b>
Borrowings	372,913	332,924	(39,989)
Deferred tax liabilities	3,840	11,026	7,186
Other liabilities	24,464	21,711	(2,753)
<b>Total liabilities</b>	<b>401,217</b>	<b>365,661</b>	<b>(35,556)</b>
<b>Total equity</b>	<b>733,308</b>	<b>756,138</b>	<b>(22,830)</b>
Shares on issue	452,458,592	452,458,592	-
<b>Net tangible (excluding goodwill) assets (cents per share)</b>	<b>156</b>	<b>161</b>	<b>(5)</b>

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