PFI ANNOUNCES ROBUST ANNUAL RESULTS

The PFI management team will present the results via live webcast from 10am NZT on 22 February 2021. To view and listen to the webcast, please visit https://edge.media-server.com/mmc/p/ykx59fkj. Anyone wishing to participate in the webcast (for example, to ask a question) must pre-register for the conference call at http://apac.directeventreg.com/registration/event/6081809. 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

- **Robust annual result:** annual profit after tax of $113.5 million, Funds From Operations (FFO)[1] earnings up 6.6% from the prior year to 9.67 cents per share, Adjusted Funds From Operations (AFFO) earnings up 3.1% from the prior year to 8.03 cents per share, 2020 cash dividends of 7.70 cents per share
- **Strong balance sheet:** net tangible assets up 7.5% to 220.9 cents per share, additional bank facility secured, over $110 million of available liquidity, gearing of 30.0%
- **Portfolio metrics healthy:** weighted average lease term of 5.28 years, occupancy of 99.4%, just 3.3% of contract rent is due to expire in 2021
- **Significant strategic progress:** $183 million invested in core industrial property and $158 million of non-core divestments since the beginning of 2019, including the post balance date divestment of Carlaw Park for $110 million, portfolio positioned to benefit from trends supporting long-term growth
- **Increased dividend guidance:** robust results, a strong balance sheet, and forecast rental growth result in a lift in 2021 dividend guidance to 7.85 to 7.90 cents per share

Property for Industry Limited (PFI, the Company) today announced robust results for the year ended 31 December 2020.

“Against a backdrop of testing conditions, the Company performed exceptionally well. Specifically, our conservative gearing and ability to access liquidity worked to our advantage. We took decisions on the basis of a well-defined strategy but retained the flexibility to change course. The Board is pleased to have emerged well placed to respond to opportunities as they arise. At the same time, we have grown cash returns for our investors while supporting those tenants most in need,” says PFI Chairman, Anthony Beverley.

Robust annual result

Profit after tax for the year totalled $113.5 million (22.70 cents per share), down from $176.3 million (35.35 cents per share) in the prior year. A $72.5 million fair value gain on investment properties, as compared to a $125.2 million fair value gain in the prior year, was the main contributor to this reduction in profit.

FFO earnings of 9.67 cents per share were 0.60 cents per share or 6.6% ahead of the prior year. AFFO earnings of 8.03 cents per share were up 0.24 cents per share or 3.1% when compared to the prior year.

That being the case, the PFI Board resolved to pay a fourth quarter cash dividend of 2.2500 cents per share, up 0.1000 cents per share from the dividend paid in the prior year.

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[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.

The dividend will have imputation credits of 0.5141 cents per share attached and a supplementary dividend of 0.2333 cents per share will be paid to non-resident shareholders. The record date for the dividend is 1 March 2021, and the payment date is 10 March 2021.

As was the case with the third quarter dividend, the dividend reinvestment scheme (DRS) will operate with a discount of 2%. The last date for receipt of an application for participation in the DRS is one business day after the record date, being 2 March 2021. Further details can be found in the DRS Offer Document, which is available on PFI's website: https://www.propertyforindustry.co.nz/investor-centre/dividend-information/dividend-reinvestment/.

The fourth quarter dividend will take cash dividends for the full year to 7.70 cents per share, an increase from the prior year of 0.10 cents per share, resulting in an FFO dividend pay-out ratio of 80% (2019: 84%) and an AFFO dividend pay-out ratio of 96% (2019: 98%, refer Appendix 2).

Strong balance sheet

Net tangible assets (NTA) per share increased by 15.4 cents per share or 7.5% from 205.5 cents per share as at the end of 2019 to 220.9 cents per share as at the end of the year.

In response to the risks associated with the COVID-19 pandemic, in March 2020 PFI secured a new $50 million liquidity facility from the Commonwealth Bank of Australia, New Zealand Branch (CBA). In November 2020, the facility was extended to 19 March 2022 and increased from $50 million to $100 million. The extended and increased facility was in addition to the bonds and syndicated bank facility PFI already had in place.

"Our portfolio revaluation uplift has made the Company more valuable. At the same time we have shored up our ability to access cashflow to continue to secure quality industrial properties in line with our strategy," says PFI Chief Finance and Operating Officer, Craig Peirce.

The weighted average term to expiry of PFI's bonds and bank facilities stands at 2.8 years as at the end of the year, and the Company ended the year with gearing[2] of 30.0% and an interest cover ratio[3] of 4.1 times.

Craig Peirce concludes: "High levels of liquidity from a diverse range of sources, ultra-low interest rates and headroom to covenant levels provide PFI with a strong funding position, and the contracted divestment of Carlaw Park will provide further funding flexibility."

[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.

Portfolio metrics healthy

Portfolio snapshot as at	31 December 2020	31 December 2019
Book value	$1,631.5m	$1,476.2m
Number of properties	94	94
Number of tenants	148	144
Contract rent	$89.8m	$84.9m
Occupancy	99.4%	99.0%
Weighted average lease term	5.28 years	5.38 years
Auckland property	84.6%	84.1%
Industrial property	91.7%	90.0%

Further to the announcement in December 2020, PFI recorded an annual increase in the value of its property portfolio from independent valuations of $72.5 million or 4.7% to $1,631.5 million. Around one-third of this valuation outcome was due to rental growth, which in part reflects the successful leasing outcomes, described below. Low interest rates are contributing to a demand for industrial property investment that continues to outstrip supply, resulting in movements in yields or cap rates that contributed the remaining two thirds of the increase in value. As a result of portfolio and valuation activity, PFI's passing yield firmed from 5.75% to 5.53%. 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 2.5% under-rented.

Over 90,000 square metres, representing around 14% of PFI's existing portfolio by rent, was leased during the year to 37 new and existing tenants for an average increase in term of 7.5 years. Lease renewals accounted for more than 70% of the contract rent secured. Across these leasing transactions, low levels of incentives and capital expenditure were required to attract and retain tenants, with average leasing costs of 0.6 months per year of term.

The leasing market for industrial property remains robust, with vacancy still at historically low levels. CBRE reports[4] Auckland Prime industrial vacancy is at just 1.2%, with Secondary industrial vacancy at 1.7%.

Rent reviews were completed on 94 leases during the year, resulting in an average annual uplift of 3.4% on ~$50.7 million of contract rent. 12 market rent reviews on ~$4.2 million of contract rent delivered an annualised increase of 2.8% over an average review period of 2.5 years. These market rent reviews were settled at an average of approximately 1.7% above December 2019 market rental assessments.

At the end of the year, the Company's portfolio was 99.4% occupied and just 3.3% of contract rent is due to expire in 2021. When combined with rent reviews, around 83% of PFI's portfolio is subject to some form of lease event during 2021.

Significant strategic progress

Including the post balance date acquisition of industrial properties located at 670-680 Rosebank Road in Avondale, Auckland, PFI has invested $183 million in core industrial property since the beginning of 2019.

At the same time, $158 million of non-core property has been divested, including the recently announced post balance date divestment of the Carlaw Park properties in Parnell, Auckland.

On completion of the Rosebank Road acquisition and the Carlaw Park divestment, PFI's portfolio will be

[4] CBRE "Auckland industrial and office vacancy Hot off the Press", February 2021

98% industrial, positioning the Company to benefit from trends supporting long-term growth, such as e-commerce.

In 2021, we will continue to target acquisitions of core industrial properties, as well as advancing our plans for some of our strategic sites, such as our Bowden Road site in Mount Wellington, and our Springs Road site in East Tamaki, where upcoming potential lease expiries may provide PFI with significant redevelopment opportunities. The divestment of Shed 22 in Wellington following completion of seismic works will also be a priority, as will the recommencement of the build-to-lease development at 47 Dalgety Drive in Wiri ($9.0 million).

Increased dividend guidance
Simon Woodhams notes: “PFI has delivered robust results, with an increase in both FFO and AFFO earnings. The Company has a strong balance sheet, and our industrial property portfolio is in great shape, with forecast growth in rents.”

Craig Peirce continues: “Our average AFFO dividend pay-out ratio has been 100% since we began disclosing this metric in 2016[5]. Now that dividends are comfortably AFFO covered, we are pleased to advise a lift in forecast dividends of 0.15 to 0.20 cents per share to 7.85 to 7.90 cents per share.

“We expect that this level of full year cash dividends will approximate 80% to 90% of FFO earnings and 95% to 100% of AFFO earnings, in line with the Company’s dividend policy. This guidance is subject to there being no material adverse changes in conditions or unforeseen events, including no material tenant failures or further significant COVID-19 restrictions.”

Closing
Simon Woodhams concludes: “This year, we took proactive steps to protect our people and core business. At the same time, we held our course on our strategy and retained the confidence of the market. The year’s results show that even when the country and the economy as a whole are struck by unexpected events like the COVID-19 pandemic, our patient, long-term approach remains relevant.”

ENDS

ABOUT PFI & CONTACT

PFI is an NZX listed property vehicle specialising in industrial property. PFI’s nationwide portfolio of 95 properties is leased to 149 tenants.

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[5] AFFO has been disclosed since the financial year ended 31 December 2016 (refer Appendix 3).

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 2020**	**For the year ended 31 December 2019**
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	**113,452**	**176,286**
Adjusted for:		
Fair value loss / (gain) on investment properties	(72,546)	(125,193)
Material damage insurance income	(5,073)	(1,125)
Loss / (gain) on disposal of investment properties	14	(4,126)
Fair value loss / (gain) on derivative financial instruments	(643)	(2,577)
Amortisation of tenant incentives	2,841	2,656
Straight lining of fixed rental increases	(1,882)	(1,690)
Deferred taxation	12,175	986
Other	2	12
Funds From Operations (FFO)	**48,340**	**45,229**
FFO per share (cents)	**9.67**	**9.07**
Maintenance capex	(2,977)	(3,446)
Incentives and leasing fees given for the year	(4,225)	(2,955)
Other (incl. reversal of accounting entries for COVID-19 abatement and deferral deals)	(1,010)	-
Adjusted Funds From Operations (AFFO)	**40,128**	**38,828**
AFFO per share (cents)	**8.03**	**7.79**

Appendix 2 – FFO and AFFO Dividend Pay-out Ratios

	2020	**2019**
Full year dividends per share (cents)	**7.70**	**7.60**
FFO dividend pay-out ratio (%)	**80%**	**84%**
AFFO dividend pay-out ratio (%)	**96%**	**98%**

Appendix 3 – AFFO Pay-out Ratios (2016 – 2020)

Year	AFFO per share (cents)	Full year dividends per share (cents)	Pay-out ratio (%)
2016	6.95	7.35	105.8%
2017	7.49	7.45	99.5%
2018	7.46	7.55	101.2%
2019	7.79	7.60	97.6%
2020	8.03	7.70	95.9%
Total	**37.72**	**37.65**	**100.0%**