ASX release

Goodman Group upgrades FY24 operating EPS growth guidance to 11% on the back of strong operating result

15 February 2024

Goodman Group (Goodman or Group) today released its results for the half year ended 31 December 2023. The Group delivered operating profit[1] of $1,127.4 million, up 29% on 1H23, and operating earnings per security (OEPS) of 59.2 cents[2], up 28% on the same period last year. The Group recorded a statutory loss of $220.1 million.

The Group is strategically positioned to benefit from the growth in essential infrastructure required to service the digital economy. The acceleration of new opportunities including data centre projects, are a catalyst for the Group to optimise its overall return on assets. The business has performed strongly in the first half and as a result, the Group expects to achieve full year OEPS growth of 11% compared to the previous guidance of 9%.

Key highlights for the period are:

Financial

+ Operating profit[1] of $1,127.4 million, up 29% on 1H23
+ Operating EPS[2] of 59.2 cents, up 28% on 1H23
+ Statutory loss of $220.1 million (includes the Group's share of valuation movements, non-cash items and derivative and mark to market movements)
+ Gearing at 9.0%[3] (8.3% at 30 June 2023). Look through gearing at 22.7%
+ The Group's available liquidity is $3.0 billion
+ Net tangible assets (NTA) per security of $8.80 per security, down 3.5% from 30 June 2023
+ Distribution per security of 15.0 cents for 1H24.

Operational

+ Total assets under management (AUM) of $79.0 billion, down 2% from 30 June 2023
+ Revaluation movements of -$3.4 billion across the Group and Partnerships, representing a 4% decline
+ Portfolio occupancy remains high at 98.4%[4] and like-for-like net property income (NPI) growth of 5%[4]
+ Development work in progress (WIP)[5] is $12.9 billion, across 85 projects, with a forecast yield on cost of 6.7%
+ Data centres make up 37% of the development WIP and the global power bank has expanded to 4GW
+ On track to achieve key Group sustainability targets with 312MW of solar PV installed or committed to as at 31 December 2023.

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Group Chief Executive Officer, Greg Goodman said:

"Goodman Group has delivered a strong operational result in the first half of FY24. As the digital economy expands with the growth of artificial intelligence and increased computing requirements, so does our ability to provide the essential infrastructure needed to support its progress.

Our portfolio of strategically located logistics properties provides customers the opportunity to increase investments in digitisation and automation to improve efficiency. Our growth in data centre capacity underscores our ability to deliver digital infrastructure, where we're securing power on our sites and developing data centres in cities with high demand.

Goodman's operating profit is up 29% on the first half of last year with strong performance across all aspects of the business. Development earnings grew with a higher proportion of development originated on balance sheet (prior to commencement or completion) and continued strong margins. Property investment earnings also grew due to growth in rents and more stabilised AUM from acquisitions and development completions across the Partnerships. Revaluations saw a reduction in property values of $3.4 billion across the Group and Partnerships. The sharp increase in long-term government bond yields had an adverse impact on the global cost of capital for all asset classes and was the main factor contributing to the increase in cap rates in our portfolio, partly offset by market rental growth.

Management earnings were up 36%, reflecting higher performance fees in 1H24 compared with 1H23, while assets under management were down slightly. Our platform remains well capitalised and lowly levered, and we continue our focus on delivering our investors attractive earnings growth, underpinned by a sustainable and long-term business and capital management strategy."

Property investment – supply constraints supporting occupancy and rental growth in our markets

Goodman's strategically located portfolio continues to deliver positive results, with supply constraints and ongoing demand in our markets supporting the strong operating performance of our properties. Property investment earnings are up 7% to $278.2 million, and occupancy remains high at 98.4%[4]. Like-for-like net property income was 5.0%[4]. The cumulative growth in market rents in recent years has resulted in the portfolio being 25% under-rented on average[6], providing support for growth in future cash flows, net property income growth, and valuations.

Key highlights include:

+ High occupancy of 98.4%[4]
+ Like-for-like NPI growth at 5.0%[4]
+ Leased 2.4 million sqm[4] over the 12 months, equating to $346 million[4] of annual rental property income
+ Weighted average lease expiry (WALE) of 5.3 years[4].

Development – continued structural trends and growth in digital infrastructure driving activity and returns

Development earnings were a strong contributor to the Group's operating profit, increasing by 33.6% to $804.7 million (1H23: $602.4 million). The Group's skilled site selection, growth in rents, risk management, and cost control, have resulted in continued strong development metrics and margins being maintained. Development completions are 97% leased, with 68% of the $3 billion of commencements pre-committed, and WIP is stable at $12.9 billion – all demonstrating the continued demand for our properties.

Many sites have been repositioned for higher and better use, and are now going into production. These large scale and higher value projects are resulting in longer development periods which now average 23 months and consequently the production rate[7] was $6.9 billion at 31 December 2023 ($7 billion at 30 June 2023). This includes data centre projects that represented 37% of 1H24 WIP, many of which will complete beyond FY24. A significant portion of WIP was originated on the Group's balance sheet and therefore the Group will earn a greater share of the potential gains, which will be reflected in operating profit.

Key highlights include:

+ WIP of $12.9 billion[5]
+ 85 projects in WIP in 12 countries, covering 3.7 million sqm
+ Development yield on cost of 6.7% for projects in WIP, 6.9% for commencements
+ WALE of 13.6 years for projects in WIP
+ Data centres account for 37% of WIP
+ 97% of completions are leased, demonstrating the demand for our strategic locations and the effectiveness of our leasing teams.

Data centre progress – delivering data centres and expanding global power bank

Since 2006, Goodman has delivered 0.6 GW of powered sites and powered-shell data centre projects. We have continued to make further progress in FY24 on advancing our data centre strategy – securing power and planning, commencing infrastructure and continuing to work with customers on optimal delivery models that suit their requirements. We have activated and completed a number of sites, demonstrating our planning, architectural, engineering and development capabilities.

Goodman is well positioned to capture strong demand for new, high-value, high-tier data centres in supply constrained locations. Our global power bank has expanded by 0.3 GW to 4.0 GW across 12 major global cities. Secured power has increased to 2.1 GW, with a further 1.9 GW of power in advanced stages of procurement. There are several additional sites owned by the Group and Partnerships currently under review for potential data centre use.

Management – strong portfolio driving performance fees

Management earnings are up 36% on 1H23 driven by portfolio performance fees of $136 million ($42 million in 1H23). Total AUM was $79.0 billion, with external AUM of $74.6 billion, both down 2%. This was primarily due to revaluations and foreign exchange movements, partly offset by the favourable impacts from development activity and acquisitions. Strong rental growth in several markets has been reflected in the valuations and mitigated a significant portion of the cap rate movement.

The Partnership platform raised $0.7 billion in 1H24 including the addition of one new Partnership. The Partnerships have $16.3 billion of available liquidity including equity commitments[7], cash and undrawn debt. The platform has grown to 21 Partnerships with 53 investors. Goodman invests alongside these partners, maintaining a 28.5% average equity cornerstone position in the Partnerships.

While capital partners remain cautious, logistics and digital infrastructure in the right locations, remain valuable asset classes. Following recent repricing, core returns from these are looking attractive.

The Group is continually looking to optimise the returns it can generate from the capital at its disposal. The opportunity created by the acceleration of demand for data centres along with the structural demand for more intensive logistics operations, means we are considering the composition of our Partnerships with a view to enhancing return on assets.

Key management highlights include:

+ External AUM of $74.6 billion, down 2% from 30 June 2023 impacted by revaluations and foreign exchange
+ Increasing number of Partnerships from 20 to 21
+ Average Partnership gearing of 21.4%
+ $16.3 billion available in equity commitments[8], cash and debt.

Environmental, social, governance – executing sustainability strategy

Goodman continues to integrate ESG into its business. We are guided by our 2030 Sustainability Strategy which is designed to help us create and maintain a sustainable business, with guiding principles that support our people and their execution of our strategy. Our work in this area has been recognised with positive performance in the Global Real Estate Sustainability Benchmark (GRESB) for the Group and many of our Partnerships. We continue to monitor and report progress towards our science-based emissions reduction targets which were validated by the SBTi. We have increased our global solar installations and commitments to 312 MW, on track to meet our 400 MW 2025 target. So far this year, we contributed $5.1 million through the Goodman Foundation to community organisations to have a positive tangible impact helping to build community resilience.

Outlook – well positioned as providers of essential infrastructure for the digital economy

Commenting on the outlook, Greg Goodman said:

"Our focus on providing the essential infrastructure for the digital economy is supporting the positive outlook for FY24. Data centres will be a key area of growth and the acceleration of data centre activity is a catalyst for the Group to consider multiple opportunities to enhance its returns. We continue to assess the Group's capital allocation to both existing and potential opportunities to provide the best risk-adjusted returns. Key to this will be the active rotation of our capital to fund sustained earnings growth over the long term.

Given positive structural trends, we expect continued customer and investor demand for our high quality industrial and digital infrastructure assets. Supply constraints in our locations are expected to continue to drive rental growth and maintain high occupancy rates across the portfolio.

While there is scope for further volatility in some markets, we believe cap rates at current levels for prime assets are attractive and we are focused on the buying opportunity.

The business has performed strongly in the first half, and as a result the Group expects to achieve full year OEPS growth of 11% compared to the previous guidance of 9%."

Goodman sets its targets annually and reviews them regularly. Forecasts are subject to there being no material adverse change in market conditions, or the occurrence of other unforeseen events.

– ENDS –

Authorised for release to the ASX by Carl Bicego, Company Secretary and Group Head of Legal and Risk.

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About Goodman

Goodman Group is a global industrial property and digital infrastructure specialist group with operations in key consumer markets across Australia, New Zealand, Asia, Europe, the United Kingdom, and the Americas. Goodman Group, comprised of the stapled entities Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited, is the largest property group on the Australian Securities Exchange (ASX: GMG), a top 20 entity by market capitalisation, and one of the largest listed specialist investment managers of industrial property globally.

Goodman provides essential infrastructure for the digital economy by owning, developing, and managing high-quality sustainable properties that are close to consumers in key cities around the world. Our property portfolio includes logistics and distribution centres, warehouses, light industrial, multi-storey industrial, business parks and data centres. We take a long-term view, investing significantly alongside our capital partners in our investment management platform and concentrating our portfolio where we can create the most value for customers and investors.

For more information visit: www.goodman.com

[1] Operating profit comprises profit attributable to Securityholders adjusted for property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items.

[2] Operating EPS is calculated using operating profit and weighted average diluted securities of 1,904.8 million which includes 10.6 million LTIP securities that have achieved the required performance hurdles and will vest in September 2024 and September 2025.

[3] Gearing is calculated as total interest bearing liabilities over total assets, both net of cash and the fair values of certain derivative financial instruments included in other financial assets of $86.8 million (30 June 2023: $81.7 million). Total interest bearing liabilities are grossed up for the fair values of certain derivative financial instruments included in other financial liabilities of $39.4 million (30 June 2023: $34.2 million).

[4] Partnership industrial and warehouse assets (excludes office properties which have been earmarked for redevelopment) and represents 97% of Partnership assets.

[5] Development work in progress (WIP) relates to active developments across Goodman and Partnerships. In most cases, WIP is the projected value of projects, however for certain longer dated projects that are in the early stages of development, WIP is the estimated cost of land and committed works.

[6] Under-renting is based on management's assessment of market rents.

[7] Production rate is the WIP at a point in time divided by the expected time from commencement to stabilisation, reported on a per annum basis.

[8] Partnership investments are subject to Investment Committee approval.