



Stride Property Group (NS)

NZX Announcement

IMMEDIATE – 30 May 2018

## Stride Property Group - FY18 Annual Results

Stride Property Group<sup>1</sup> has released its Annual Report and Annual Results presentation for the twelve months ended 31 March 2018 (FY18).

### Strategy:

Stride is developing a real estate investment management (REIM) business for the long term, with each step towards growth deliberate and carefully considered. We use our expertise to invest in and manage quality real estate portfolios that attract the highest demand and deliver market-leading returns to our investors. We believe that by creating value for our investors we will continue to create sustainable growth opportunities for Stride's shareholders.

### Performance (Stride)

#### Our commitment

- We target investments that show high long-term demand with consistently strong returns
- We will continue to grow our high performing and sustainable investment management business

#### Our delivery (Compared to Prospective Financial Information for FY18 figures in brackets)

- Net 5.6% investment property portfolio valuation increase<sup>2</sup>, taking SPL's loan to value ratio (LVR) to 34.1%<sup>3</sup>
- Net Tangible Assets (NTA) backing per share to \$1.82 (excludes value of management contracts)
- Profit after income tax of \$95.3m (\$35.7m), up \$59.6m
- Distributable profit<sup>4</sup> after current income tax of \$38.8m or 10.63cps (\$38.1m or 10.44cps) up \$0.7m or 0.19cps
- Management fee income grown to \$21.0m, including SPL fees, (\$18.8m), compared with \$13.1m for FY17

### People (SIML)

#### Our commitment

- We are committed to building our capability to deliver a full range of services from asset management to property development, from finance to corporate services and investment management

#### Our delivery

- Appointment of new Chief Executive Officer – Philip Littlewood
- Appointment of new Director – Philip Ling
- Newly established Development team, led by Mark Luker, with overall responsibility for property development across all property sectors
- Newly established Corporate Services team, led by Louise Hill, with responsibility for governance, compliance, risk, health and safety and in-house legal

## Places (SPL)

### Our commitment

- We leverage our investment management, development and leasing expertise to select property investments that deliver market leading returns

### Our delivery (Prior period FY17 for SPL figures in brackets)

#### Divestments

- Three Bunnings operated properties sold to Investore Property Limited for \$78.5m, following a lease restructure, equating to a \$9.5m fair value uplift on 31 March 2017 values, including associated costs and incentives

#### Developments

- 15 Rockridge Ave, Auckland - 9,000m<sup>2</sup> new warehouse completed at a yield on cost of 7.1% (including land)
- 11 Springs Road, Auckland - New \$43m facility with 25-year lease to Waste Management at an initial net rental of \$3.9m pa. Possible expansion of scope of works by up to \$23m with associated increase in rental. Completion targeted for second half of 2019 calendar year

#### Leasing

- 282 lease transactions over 267,320m<sup>2</sup> for a total annual rental of \$54.8m, taking FY19 lease expiries to 8.7% and FY20 lease expiries to 10.1% of the portfolio contract rental<sup>5</sup>
- Occupancy at 96.7% (96.8%). Subsequent to balance date, portfolio occupancy increased to 98.8%
- Weighted average lease term of 5.1 years (4.9 years)

#### Retail Sales

- Total sales at NorthWest Shopping Centre and NorthWest Two increased by +14.4%<sup>6</sup>, with specialty sales<sup>7</sup> alone increasing by +13.5% to \$8,075 pm<sup>2</sup>. Total sales<sup>8</sup> at Silverdale Centre increased by +4.4%

## Products (Stride)

### Our commitment

- We create and manage sustainable, single sector focused investment products for our investors
- We co-invest in our products to ensure we have a long-term alignment with our investors
- Our success is aligned to the success of our products

### Our delivery

#### Investore

- Net rental income of \$44.5m, up \$0.6m on forecast<sup>9</sup>
- Profit after income tax \$46.2m, up \$27.0m on forecast<sup>9</sup>
- \$100m six year Bond issued at 4.40% in April 2018
- Disposed of two assets for \$32.6m, 11% premium to book value
- 39 leasing transactions completed reflecting an increase of +2.7% over previous rentals

### Diversified

- Successful delivery of H&M development at Queensgate, on time and on budget
- Significant development pipeline, including Queensgate rebuild
- 335 leasing transactions completed reflecting an increase of +13.0% over previous rentals

## Financial Performance Highlights (Stride): (forecast figures in brackets)

On 10 June 2016, Stride Property Limited (SPL) issued an Explanatory Memorandum as a part of its restructuring into a stapled group. The following is a comparison of the prospective financial information in the Explanatory Memorandum to Stride Property Group's actual results for the year ended 31 March 2018 (FY18).

- Net rental income of \$57.6m (\$58.2m)
- Management fee income of \$21.0m (\$18.8m) (including SPL fees)
- Corporate expenses of \$13.8m (\$13.1m)
- Profit before other income and income tax of \$40.7m (\$41.3m)
- Profit after income tax of \$95.3m (\$35.7m)
- Distributable profit<sup>4</sup> after current income tax of \$38.8m or 10.63cps (\$38.1m or 10.44cps)
- Combined 9.91 cps cash dividend for Stride Property Group for FY18
- Dividend Reinvestment Plan remains suspended

## Capital Management: (SPL)

### Key Transactions:

- **Lease incentive** - \$18m paid to Bunnings (\$13m net of tax)
- **Disposals** - Three Bunnings operated properties to Investore for \$78.5m (pre disposal costs)

### Bank Facility:

- \$92m of banking facility headroom as at 31 March 2018
- Bank debt refinancing is planned to occur during FY19

### Hedging movements for the year were:

- Expired hedging - \$85m swaps, with rates ranging from 3.3% - 5.0%
- Post balance date - \$100m of swaps terminated, with average 2.8 years duration and an average rate of 4.1%, for a cost of \$4.0m. New \$120m swaps entered into with average 5.2 years duration and an average rate of 2.8%

## REIM Fee Income

### Investor alignment

The performance of Stride's investment management business is highly aligned with the investors in each of SIML's managed products. The performance of Stride's investment management business is derived from three main sources:

- Underlying performance of the managed products, including return on investment from SPL holding in each product, and performance fees
- Activity based SIML fee revenue income, primarily driven from capital and leasing activity
- Base fee revenue, aligned to the size of the underlying business

## Execution of strategy

- Significant steps have been taken around Stride's four strategic pillars of Performance, People, Places and Products
- REIM platform well established
- Outperformance of distributable profit after current income tax of \$38.8m or 10.63cps (\$38.1m or 10.44cps)
- Combined 9.91cps cash dividend for Stride Property Group for FY18

## Looking ahead

- Stride has made a strong start in its first two years of operations
- Over time, seeking to establish a group of sector-specific commercial property products, with Stride co-investing
- Over the short to medium term, Stride will look to use its balance sheet to acquire assets that may ultimately be used in the establishment of these products
- Targeting a combined 9.91cps cash dividend for Stride Property Group for FY19

### Notes:

1. Stride Property Group (Stride) comprises Stride Investment Management Limited (SIML) and Stride Property Limited (SPL). A stapled security of the Stride Property Group comprises one share in SIML and one share in SPL. The stapled securities are quoted on the NZX Main Board under the ticker code SPG. Information presented in this presentation is on a combined basis unless otherwise specified.
2. Investment property portfolio valuation increase excludes \$0.8m arising from the elimination of the development fees charged by SIML to SPL and includes \$9.5m fair value uplift from the restructure of the Bunnings leases. The investment property portfolio excludes the valuation of NorthWest Two, which is classified as inventory in the financial statements. As at 31 March 2017, the investment property portfolio was valued at \$859m.
3. The LVR calculation includes the value of inventory of \$36.3m in the value of properties and ignores the value of the investments in the managed funds.
4. Distributable profit is a non-GAAP financial measure adopted by Stride to assist Stride and investors in assessing Stride's profit available for distribution. It is defined as net profit/(loss) before income tax, adjusted for non-recurring and/or non-cash items, share of profits in associates, dividends received from associates and current tax. Further information, including the calculation of distributable profit and the adjustments to net profit before income tax, is set out in note 8 of the consolidated financial statements for the year ended 31 March 2018.
5. Contract Rental is the amount of rent payable by each tenant, plus other amounts payable to SPL by that tenant under the terms of the relevant lease as at 31 March 2018, annualised for the 12 month period on the basis of the occupancy level for the relevant property as at 31 March 2018, and assuming no default by the tenant.
6. Total retail sales is the annual sales on a rolling 12-month basis (excluding GST).
7. Like-for-like specialty sales only includes sales from those tenancies who have traded for the past 24 months and includes commercial services categories.
8. Sales data is not collected for all tenants at Silverdale Shopping Centre. Some tenants are not obliged to provide sales data under the terms of their lease.
9. Values are calculated based on the audited numbers in the financial statements for 2018 and the forecast numbers contained in the Product Disclosure Statement issued by Investore Property Limited (Investore) on 10 June 2016 and associated information published on the online register maintained by the Companies Office and the Registrar of Financial Service Providers on 10 June 2016 in connection with Investore's initial public offering.

## Ends

**Attachments provided to NZX:**

- Stride Property Group – FY18 Annual Report – 300518
- Stride Property Group – FY18 Annual Results Presentation – 300518
- Stride Property Group – NZX Appendix 1 – 300518
- Stride Property Limited – NZX Appendix 7 – 300518
- Stride Investment Management Limited – NZX Appendix 7 – 300518

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*A Stapled Security of the Stride Property Group comprises one ordinary share in Stride Property Limited and one ordinary share in Stride Investment Management Limited. Under the terms of the constitution of each company, the shares in each can only be transferred if accompanied by a transfer of the same number of shares in the other.*

*Stapled Securities are quoted on the NZX Main Board under the ticker code SPG. Further information is available at [www.strideproperty.co.nz](http://www.strideproperty.co.nz) or at [www.nzx.com/companies/SPG](http://www.nzx.com/companies/SPG).*