

# Acquisition and Capital Raising

23 SEPTEMBER 2015



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The Existing Shares are the only securities of DNZ that are currently quoted and of the same class as the New Shares.

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# INTRODUCTION

# Introduction

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## DNZ Property Fund Limited (“DNZ”) has agreed to acquire a portfolio of large format retail assets from Antipodean Properties Limited and Antipodean Supermarkets Limited

- Purchase price is \$287.0m which represents a yield of 6.5%
- Portfolio consists of 19 nationwide large format retail assets
- 96% of Portfolio gross income from a single, high quality tenant in General Distributors Limited, the operator of Countdown supermarkets in New Zealand and an ultimate subsidiary of Woolworths Limited
- Transaction is expected to result in an increase of approximately 1.3% to 1.8% in the level of distributable profit per share in the first three full financial years<sup>1</sup>
- Settlement is expected to be between 28 October and 12 November 2015

## Financing

- The transaction is expected to be financed through a combination of equity and committed credit facilities
  - An underwritten placement to eligible shareholders and investors of 59.4 million shares or approximately \$114m equity and up to \$15m to be raised via a share purchase plan
  - Term loan of \$160m provided by existing banking syndicate along with a bridge facility if necessary
    - Terms are in line with existing facilities in place
    - Loan to value ratio of 42% post completion assuming bridge facility is not drawn
    - Higher leverage reflects long-dated WALT and creditworthiness of the tenant of the acquired assets

<sup>1</sup> Based on underwritten capital raise price and would increase if the placement price increases

# FINANCIAL INFORMATION

# Recap on FY15 result

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## Financial Performance

Operating profit  
before other income  
& income tax up  
**13.1%**  
on the prior year

Distributable  
profit<sup>1</sup> before  
income tax up  
**15.1%**  
on the prior year

10.25 cps  
annual  
dividend up  
**13.9%**  
on the prior year

## Portfolio

Net Valuation  
Increase  
**5.1%**  
on a like-for-like basis<sup>2</sup>

NTA  
**\$1.81**  
as at 31 March 2015

WALT  
**5.1 years**  
as at 31 March 2015

<sup>1</sup> Distributable profit is a non-GAAP financial measure adopted by DNZ Property Fund Limited (DNZ) to assist DNZ and investors in assessing DNZ's profit available for distribution. It is defined as net profit/(loss) before income tax adjusted for non-recurring and/or non-cash items 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 6 to the audited financial statements for the year ended 31 March 2015.

<sup>2</sup> The valuation of all properties disposed of during the 12 months from 1 April 2014 have been disregarded in this calculation. As at 31 March 2014 and 31 March 2015, the portfolio was independently valued at \$780.2m and \$872.4m respectively.

# Trading Update and Dividends

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## Trading update

- DNZ expects net rental income of approximately \$28m and distributable profit (after tax) in the range of \$15.0m-\$15.6m for the six months through to 30 September 2015
- Supporting the confidence on trading to date, DNZ has accelerated the payment of its FY16 second quarter dividend (relating to the period 1 July to 30 September 2015) of 2.625 cps ahead of the placement
- Interim results are expected to be released on 12 November

## Dividends and increased guidance

- Dividend pay out policy of between 95% and 100% of distributable profit
- Cash dividend for FY15 of 10.25 cps, up 13.9%
- DNZ has increased its guidance for FY16 cash dividend for the full year from 10.50 cps to 10.75 cps, an increase of +0.25 cps. DNZ is targeting a cash dividend of at least 11.25 cps for FY17, an increase of 4.7% on revised FY16 guidance
- DNZ will pay its dividend for the second quarter on 6 October 2015 with the record date being 1 October 2015<sup>1</sup>
- Dividend payment is being accelerated to mitigate dilution to the FY16 second quarter dividend that would occur due to the capital raise being conducted

<sup>1</sup> In accordance with a waiver granted by NZX Regulation from Listing Rule 7.12.2 (which ordinarily requires that at least 10 business days' notice of the record date for a dividend be given to NZX) six business days' notice of the record date for the dividend has been given.



# PORTFOLIO OVERVIEW

# Portfolio Overview

Overview	As at 31 August 2015	As at 31 March 2015
Properties	42	41
Tenants	294	281
Net Lettable Area (m <sup>2</sup> )	338,504	334,694
WALT (years)	5.3	5.1
Occupancy Rate (by area)	99.6%	96.6%
Asset Valuation	\$890.9m	\$872.4m

## Portfolio Contract Rental<sup>1</sup> by Sector As at 31 August 2015

Industrial  
20%

Office  
32%

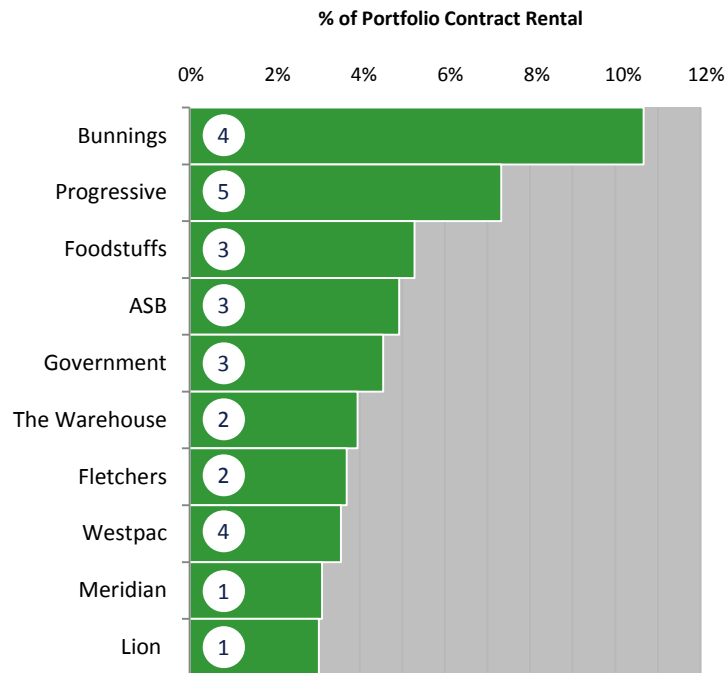
Large Format Retail  
23%

Retail  
25%

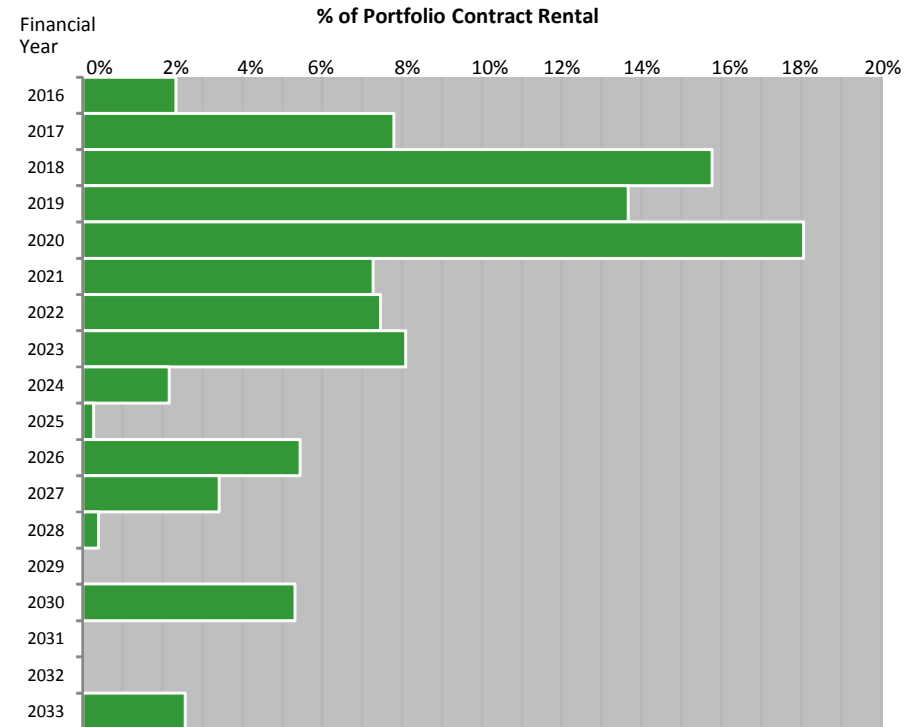
<sup>1</sup> Contract Rental is the amount of rent payable by each tenant, plus other amounts payable to DNZ by that tenant under the terms of the relevant lease as at 31 August 2015, annualised for the 12 month period on the basis of the occupancy level for the relevant property as at 31 August 2015, and assuming no default by the tenant.

# Portfolio Overview

Top 10 Tenants<sup>1</sup> by Contract Rental<sup>2</sup>  
As at 31 August 2015



Lease Expiry Profile<sup>3</sup> by Contract Rental<sup>2</sup>  
As at 31 August 2015



<sup>1</sup> Based on Contract Rental for all properties leased to individual tenants and their affiliates as at 31 August 2015. The numbers to the left of each bar represent the number of properties leased by the tenant.

<sup>2</sup> Contract Rental is the amount of rent payable by each tenant, plus other amounts payable to DNZ by that tenant under the terms of the relevant lease as at 31 August 2015, annualised for the 12 month period on the basis of the occupancy level for the relevant property as at 31 August 2015, and assuming no default by the tenant.

<sup>3</sup> Represents the scheduled expiry for each lease, excluding any rights of renewal that may be granted under each lease, for the entire portfolio as at 31 August 2015, as a percentage of Portfolio Contract Rental.

# Acquisitions, Developments and Divestments

## Acquisitions and Developments

- Acquisition of 35 Teed Street, Auckland, settled 30 June 2015
- NorthWest Shopping Centre will open 1 October 2015
- Review of redevelopment options for Johnsonville Shopping Centre expected to be completed by late 2015
- NorthWest Two development anticipated to be completed by October 2016 (refer to Appendix 2 for further disclosures)

## Divestments

- Divested \$32m of assets during FY15
- Additional \$56m of divestments anticipated for FY16. To date the following divestments have been made:
  - 51 Corinthian Drive, Auckland – unconditional with settlement on 30 September 2015
  - Lot 82, Tauriko Industrial Estate, Tauranga – unconditional with settlement on 31 October 2015
  - Lot 83, Tauriko Industrial Estate, Tauranga – unconditional with settlement expected on 15 September 2016



NorthWest Shopping Centre,  
Westgate, Auckland



NorthWest Two,  
Westgate, Auckland



Johnsonville Shopping Centre,  
Wellington

# Portfolio Repositioning

Overview	As at 31 August 2015	Pro forma Post NorthWest SC <sup>1</sup>
Properties	42	42
Tenants	294	393
Net Lettable Area (m <sup>2</sup> )	338,504	362,452
WALT (years)	5.3	5.7
Occupancy Rate (by area)	99.6%	99.3%

## NorthWest Shopping Centre (NorthWest SC)

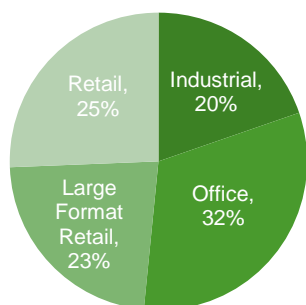
- Retail space fully leased
- Forecast value on completion \$170m<sup>(note 2)</sup>
- Net operating income yield on development costs expected to exceed 7.75%

## Delivering on portfolio strategy

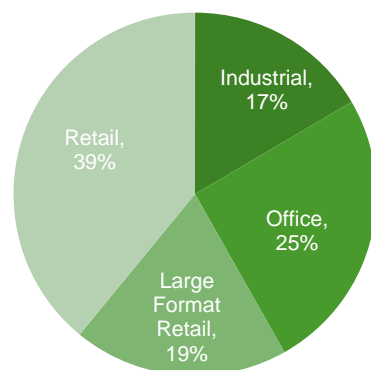
- Continued divestment of non-core assets
- DNZ post NorthWest SC delivers a greater exposure to a high growth region of the Auckland retail market

## Portfolio Contract Rental by Sector

As at 31 August 15

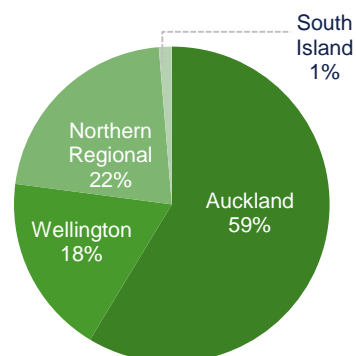


Pro Forma Post NorthWest SC<sup>1</sup>

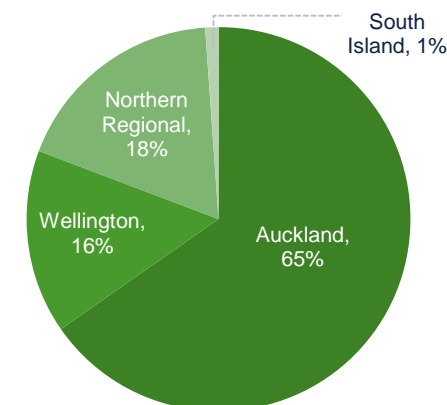


## Portfolio Contract Rental by Geography

As at 31 August 15



Pro Forma Post NorthWest SC<sup>1</sup>



<sup>1</sup> Calculated as at 30 September 2015 - post completion of NorthWest SC (1 October 2015) and divestment of 51 Corinthian Drive, Auckland (30 September 2015)

<sup>2</sup> Valuation of NorthWest SC as at 31 March 2015

# STRATEGY OVERVIEW

# Strategy Overview

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- DNZ invests in places it believes will deliver relative outperformance over time, by focusing on places that provide the best environment for our customers (tenants), their staff, their visitors and their customers.
- Place based attributes are an important part of DNZ's stock selection criteria. It varies between property sectors but is a combination of attributes including location, building design and a management style that creates a compelling value proposition.
- These attributes exhibit what we call "Enduring Demand" – places that attract the highest demand in all market conditions.
- DNZ seeks to create value for shareholders by using market insight to identify market opportunities, applying stock selection disciplines to acquire the right places, funded using the most efficient forms of capital and using our skilled and experienced management team to maximise returns.
- DNZ is also pursuing opportunities in the area of Real Estate Investment Management. Real Estate Investment Management activity enables DNZ to leverage its core skills, experience and capability to manage investments on behalf of others under a fee for service model. This may include co-investment, establishment of new funds or investment structures or expansion of DNZ's existing wholesale fund Diversified NZ Property Fund Limited.
- DNZ is currently evaluating opportunities which could increase funds under management. These opportunities are at a very early stage and there is no certainty that any transactions will take place or on what terms. DNZ expects to update the market further later in this financial year when it expects to have more certainty regarding these new Real Estate Investment Management opportunities.

# THE ACQUISITION



# Investment Highlights

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Nationwide portfolio of **19 large format retail assets** in strong catchment areas with exposure to the non-discretionary take-home food, packaged liquor and groceries sector

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**High quality tenant** in General Distributors Limited, the operator of Countdown supermarkets in New Zealand and an ultimate subsidiary of Woolworths Limited<sup>1</sup> **accounts for 96% of gross portfolio income**<sup>2</sup>

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**100%** occupancy

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Long weighted average lease term (WALT) of **18 years**

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These properties deliver very dependable income streams, an aggregate of **\$18.7m net passing yield**<sup>3</sup>, due to the long lease term and the creditworthiness of the tenant

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Limited on-going incentives and associated re-leasing costs

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High creditworthy tenant and long-term WALT **supports higher leverage at a lower cost of capital**

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DNZ has experience in managing large format retail property and currently has a portfolio of 11 properties with a combined value of \$168m including supermarkets, hardware and discount department stores

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The level of distributable profit per share is expected to increase by between **1.3% and 1.8%**<sup>4</sup> in the first three full financial years

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1. General Distributors Limited is a subsidiary of Progressive Enterprise Limited, which is an ultimate subsidiary of Woolworths Limited

2. The remaining gross income is comprised of The Warehouse (3%) and a restaurant and bar (1%)

3. Excluding life-cycle costs

4. Based on underwritten capital raise price and would increase if the placement price increases

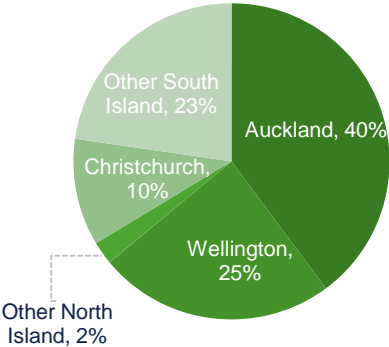
# Overview of the Acquisition Portfolio

Overview	
Properties	19
Tenants	21
Net Lettable Area (m <sup>2</sup> )	71,896
WALT (years)	18.0
Occupancy Rate (by area)	100.0%
Acquisition price	\$287.0m
Acquisition yield	6.5%

## Nationwide portfolio



## Contract Rental by Geography



# Composition of the DNZ Portfolio

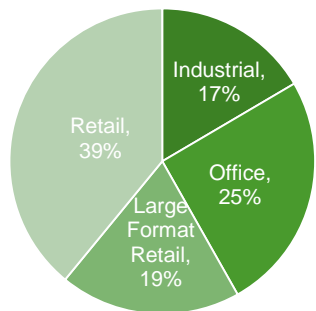
Overview	Pro forma Post NorthWest SC <sup>1</sup>	Pro forma Post Acquisition <sup>2</sup>
Properties	42	61
Tenants	393	414
Net Lettable Area (m <sup>2</sup> )	362,452	434,349
WALT (years)	5.7	8.3
Occupancy Rate (by area)	99.3%	99.4%

## Acquisition portfolio

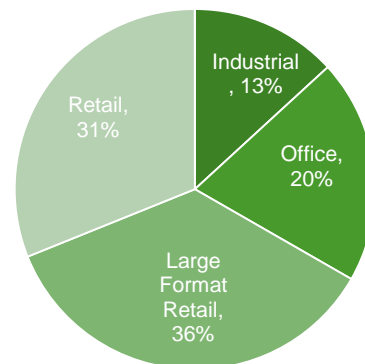
- Improvement across all key DNZ portfolio metrics
- More geographically diversified portfolio
- Progressive becomes the largest tenant exposure, representing 26% on contract rental income
- While DNZ targets having no one tenant representing more than 10% of portfolio contract rental, DNZ believes this exposure is justified given the quality of the tenant
- Transfers of three of the properties (having a total value of \$33.9m) are subject to third party consents. DNZ expects the consents to be obtained and the transfer of each to be completed within 12 months of the settlement of the transfer of the other properties

## Portfolio Contract Rental by Sector

Pro Forma Post NorthWest SC<sup>1</sup>

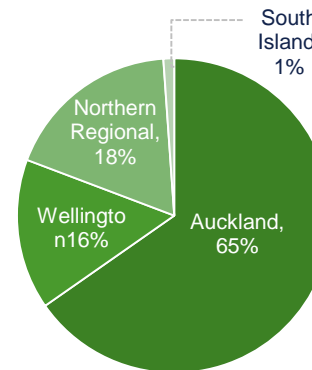


Pro Forma Post Acquisition<sup>2</sup>

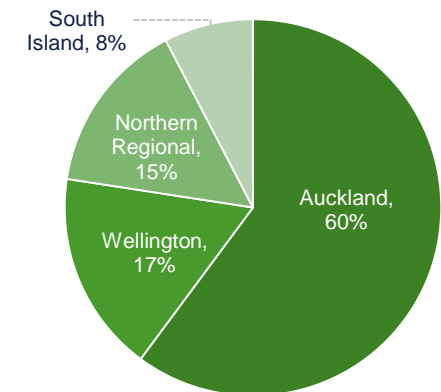


## Portfolio Contract Rental by Geography

Pro Forma Post NorthWest SC<sup>1</sup>



Pro Forma Post Acquisition<sup>2</sup>



<sup>1</sup> Calculated as at 30 September 2015 - post completion of NorthWest Shopping Centre (1 October 2015) and divestment of 51 Corinthian Drive, Auckland (30 September 2015)

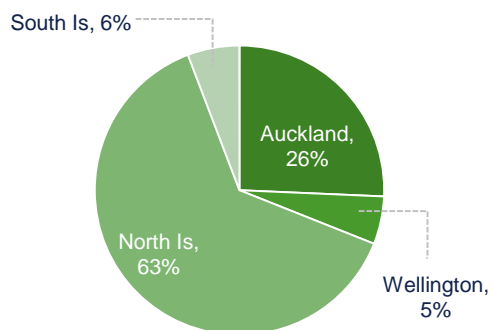
<sup>2</sup> Calculated as at 30 September 2015 - including Acquisition portfolio

# Complementary Large Format Retail Portfolio

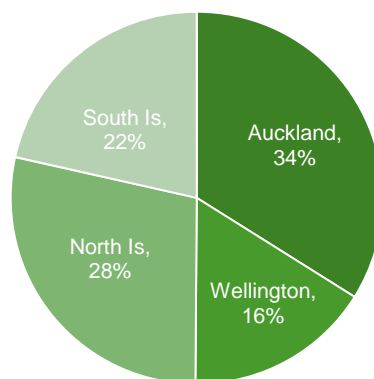
Overview	Existing large format retail 31 August 2015	Acquisition Portfolio	Pro forma Post Acquisition <sup>1</sup>
Properties	11	19	<b>30</b>
Value / acquisition (\$m)	168.1	287.0	<b>455.1</b>
Net passing income (\$m)	14.1	18.7	<b>32.8</b>
Yield	8.4%	6.5%	<b>7.2%</b>
WALT (years)	7	18	<b>13</b>

## Contract Rental by Geography - large format retail

As at 31 August 2015



Pro Forma Post Acquisition<sup>1</sup>



## Large format retail portfolio of scale

- 30 properties nationwide
- 50% of rental income from Auckland and Wellington
- High WALT with quality tenants providing strong cash flow visibility

## Strategy

- DNZ has a strategy to grow its Real Estate Investment Management business and sees an opportunity to establish a specialist investment product with a higher than average leverage and income yield.
- DNZ will update the market at the appropriate time, if and when, a decision on these opportunities has been made

<sup>1</sup> Calculated as at 30 September 2015 – including Acquisition Portfolio

# Funding and Capital Structure

## Funding

- Acquisition and associated costs along with capital raising costs to be funded from:
  - \$114m equity placement to eligible shareholders and investors
  - Up to \$15m of equity capital under a share purchase plan (“SPP”)
  - \$161.4m of bank debt to be provided by existing lenders on similar terms to current facilities

Sources	\$m	Uses	\$m
New equity raised	129.0	Investment properties	287.0
Debt	161.4	Acquisition and capital raise costs	3.4
<b>Total</b>	<b>290.4</b>	<b>Total</b>	<b>290.4</b>

## Capital structure

- DNZ targets a loan to value ratio (“LVR”) of mid 30% to low 40%
- Post-acquisition, DNZ’s LVR will be 42%
- DNZ’s considers a higher LVR is sustainable given the long-dated WALTs of the large format retail portfolio and creditworthiness of tenants (representing 36% of contracted income)

As at 30 Sep 2015	DNZ	Large format retail portfolio	Remaining DNZ portfolio
Investment properties <sup>1</sup> (\$m)	1,233.6	455.1	778.5
LVR	42%	50%	37%
LVR covenant	< 50%	n/a	n/a

<sup>1</sup> Indicative values as at 30 September 2015, post completion of NorthWest Shopping Centre (1 October 2015) and divestment of 51 Corinthian Drive, Auckland (30 September 2015) and including Acquisition Portfolio

# CAPITAL RAISING

# Capital Raise Overview

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## Capital raise

- Two separate capital raising initiatives to raise approximately \$129m of equity to partially fund the acquisition of 19 large format retail assets
  - The balance of the acquisition will be funded with additional debt facilities
- 

## Placement

- Approximately \$114m placement to eligible shareholders and investors
  - Pricing to be established in a bookbuild conducted by Goldman Sachs New Zealand Limited
  - Settlement to occur on 7 October 2015<sup>1</sup> and will not be eligible for the 2.625 cps dividend due to be paid on 6 October 2015. New shares will rank equally with existing shares
- 

## Share purchase plan

- Offer of up to \$15m to eligible NZ resident DNZ shareholders
  - Applications will be scaled if aggregated value received is greater than \$15m
  - Maximum application of \$15,000 per shareholder
  - Will be priced at the lower of the final placement price and the average end of day market price of the shares over the five business day period prior to the closing date
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<sup>1</sup> In accordance with a waiver granted by NZX Regulation from Listing Rule 7.11.1 (which ordinarily requires that shares be allotted within five business days after the latest date on which applications close), New Shares allocated under the placement will be allotted on the settlement date of the placement.

# Timetable

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<b>Event</b>	<b>Date</b>
Announcement of acquisition and intention to raise capital and cleansing notices released to the NZX	23-Sep-2015

## **Placement**

DNZ enters trading halt	23-Sep-2015
Bookbuild opens	At launch, 23-Sep-2015
Bookbuild closes	23-Sep-2015
Trading halt lifted <sup>1</sup>	24-Sep-2015
Settlement of Placement and commencement of trading of allotted shares on the NZX Main Board	7-Oct-2015

## **SPP**

SPP record date (5:00pm New Zealand time)	2-Oct-2015
SPP offer opens	9-Oct-2015
SPP offer closes	28-Oct-2015
Settlement of SPP Offer and commencement of trading of allotted shares on the NZX Main Board	4-Nov-2015

<sup>1</sup> The trading halt is to be lifted by DNZ via an announcement through NZX following conclusion of the bookbuild.

Dates above are subject to change and are an indicative only. DNZ reserves the right to amend this timetable subject to applicable laws and Listing Rules. DNZ reserves the right to withdraws the offer at any time at its absolute discretion.



# APPENDICES

# Appendix 1 - Portfolio Summary

## Overview of the Acquisition Portfolio

Portfolio Summary						
No.	Property	Region	Tenants	NLA (m <sup>2</sup> )	Net Passing Income (\$000s)	WALT (years)
1	Browns Bay	Auckland	Countdown	4,382	1,258	19.2
2	Greenlane	Auckland	Countdown	4,633	1,724	19.2
3	Meadowbank	Auckland	Countdown	4,457	1,541	19.2
4	Highland Park	Auckland	Countdown	4,812	1,067	19.2
5	Papakura	Auckland	Countdown and Stampede Tavern	5,435	1,292	17.5
6	Onehunga	Auckland	Countdown	2,011	632	9.2
7	Morrinsville	Waikato	Countdown	1,724	438	9.2
8	Kilbirnie	Wellington	Countdown	3,490	727	19.2
9	Johnsonville	Wellington	Countdown and The Warehouse	6,315	1,496	14.0
10	Upper Hutt (Queen St)	Wellington	Countdown	3,427	655	19.2
11	Upper Hutt (Maidstone)	Wellington	Countdown	3,037	616	9.2
12	Lower Hutt	Wellington	Countdown	5,078	1,068	19.2
13	Blenheim	Marlborough	Countdown	3,136	741	19.2
14	Kaiapoi	Canterbury	Countdown	3,025	782	19.2
15	Beckenham	Canterbury	Countdown	3,976	1,156	19.2
16	Timaru	Canterbury	Countdown	2,767	573	19.2
17	Queenstown	Otago	Fresh Choice	1,727	589	19.2
18	Dunedin Central	Otago	Countdown	4,123	1,183	19.2
19	Invercargill	Southland	Countdown	4,341	1,181	19.2
<b>Totals</b>				<b>71,896</b>	<b>18,719</b>	<b>17.7</b>

# Appendix 2

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## NorthWest Two development

- On 9 September 2015 DNZ provided an update to the market on the approximately \$37m development of NorthWest Two and the arbitration with Westgate Town Centre Limited (WTCL) regarding the size of one of the four NorthWest Two buildings. As already advised, WTCL has withdrawn its dispute about the validity of DNZ's step-in and the parties have moved to arbitration on the aspect of design. If DNZ is unsuccessful at the arbitration, DNZ expects that it could incur additional construction costs to meet its timetable for building NorthWest Two. DNZ may also need to seek amendments to timing conditions in the relevant resource consent. The cost of this potential event remains unknown but it could impact the yield for NorthWest Two in the short term and could create an oversupply of office space at the Westgate Town Centre pending leasing of that additionally constructed space. However, DNZ remains confident that the current plans meet all relevant requirements, including those under the arrangement with WTCL, and that a commercially satisfactory position will be reached.

# Appendix 3 - International Offer restrictions

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Prospective investors should not construe anything in this document as legal, business or tax advice nor as financial product advice for the purposes of Chapter 7 of the Corporations Act. Investors in Australia should be aware that the offer of New Shares for resale in Australia within 12 months of their issue may, under section 707(3) of the Corporations Act, require disclosure to investors under Part 6D.2 if none of the exemptions in section 708 of the Corporations Act apply to the re-sale.

## Hong Kong

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This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

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THANK YOU