Argosy

2021 ANNUAL MEETING

29 June 2021

CEO's REVIEW

[SLIDE 11] CHIEF EXECUTIVE OFFICERS REVIEW.

Thankyou Mr Chairman. As noted earlier, I'll be taking you through a few more elements of the FY21 results in a little more detail before rounding out with an update of the NZ market as we see things.

[SLIDE 12] KEY FY21 RESULT HIGHLIGHTS

We're really pleased to have delivered such a soldi result in what we would describe as a very abnormal year.

The increase in distributable income was really solid and the annualised rent review outcomes was something that we probably wouldn't have expected 12 months ago.

Our NTA was up solidly driven by annual revaluation gains of around $158 million and of course we successfully completed our 3rd green bond issue and we now have $325 million in green bond funding.

And finally, our we maintained our FY21 dividend of 6.45cps.

[SLIDE 13] BIG CORPORATE GOALS

We have some big goals over the next 10 years and we've outlined some of them here.

We are targeting over 50% of the portfolio as green working off our green framework.

We've also got a carbon neutral target and we're very pleased to have received New Zealand's first building to be certified as carbon zero - at 82 Wyndham Street.

We're also targeting more than 50% of our debt finance being green and non-bank funding..

We will see our scale be dominated by a combination of our organic portfolio activity and strategic acquisitions. We recognise this requires us to develop further expertise in specialist development knowledge. We have established a specialised development department with clear deliverables encompassing cost, quality, scope and time.

Our target to reduce carbon emissions by 2031 and greater stakeholder engagement and bigger contribution to social initiatives focused around 'changing lives, saving lives'.

[SLIDE 14] PORTFOLIO HIGHLIGHTS

We finished the FY21 year with really strong metrics. Our portfolio occupancy was 99% and our WALT was 5.5 years.

Solid like for like rental growth underpinned by strong rent reviews and leasing activity.

And good cap rate compression driven by our industrial portfolio saw a revaluation uplift of around $158 million.

[SLIDE 15] PORTFOLIO AT A GLANCE

The portfolio stats shows us within all our bands – and of course we settled the Albany Lifestyle Centre sale back in April.

The small regional asset in Napier, Omahu Road is due to settle in September this year.

[SLIDE 16] VALUE ADD OPPORTUNITIES

Currently around 17% of the portfolio by value.

We did defer some projects due to Covid but these are now looking more positive in terms of timing in the next 6-9 months.

5 and 1-3 Unity Drive is a smaller $2.1m development with Alto Packaging moving into the joined building in June.

224 Nielson Street is a large industrial site in Onehunga and is a medium term development opportunity.

8-14 Mt Richmond is a longer term opportunity and we're well advanced with our planning for that site. Fielding good inquiry from prospective tenants and this will be a carbon neutral development and help us deliver on some of our big corporate environmental goals.

101 and 105 Carlton Gore Road are two of the projects which were deferred due to Covid but the timing for these is looking clearer and we hope to be able to update the market on those at our interim results.

Whilst some developments may slow down for a short period as tenants take stock in the post Covid-19 environment. The focus on green developments however remains a priority.

[SLIDE 17] DEVELOPMENT PIPELINE

We are currently focusing on completion of our Willis Street development. We've experienced some increased costs for this project – some relating to an additional floor but others related to additional procurement, council, holding costs and Covid-19 delays.

Most importantly, the overall returns have remained attractive and we still expect to make an IRR above 7%.

We have repositioned the retail space so what was Stewart Dawsons Corner and three levels of retail will now only have ground floor retail and the other floors will be repositioned as office.

[SLIDE 18] REVALUATIONS

Cap rate firming a big driver of overall revaluations for the year. By region, Auckland contributed 95% of the uplift and by sector, Industrial was around 82% of the total overall gain.

Pleasingly we saw some positive uplift from our large format retail exposure although office was weighed down a little due to additional capital costs in development and façade costs for 7WQ.

[SLIDE 19] DISTRIBUTABLE INCOME

Gross distributable income grew to $71.6 million or around 9% to 8.61 cents per share from the prior year – and on a net basis – increased by $8.2 million to $67.7 million - or 13.7%.

On a per share basis net distributable income was 8.14 cents per share or 13.1% higher than the prior year. And adjusting for the forfeited ALC deposit – net distributable income would still be 7.59 cents per share, still 5.4% higher than the prior year.

[SLIDE 20] AFFO

Here AFFO was $60.4 million for the year up around 17% on the prior year. Some of the key moving parts to this include higher tenant incentives due to leasing up of 7WQ and Carlton Gore Rd. Maintenance is down wholly due to Covid-19 and associated lockdowns.

Our audited payout ratio for the year was 89% but if you adjust for the forfeited ALC deposit and 7WQ façade works AFFO was 95%.

[SLIDE 21] CAPITAL MANAGEMENT

As I noted earlier, we issued our 3rd green bond during the financial year which allowed us to increase tenor and cancel some bank facilities. Since the settlement of the Albany Lifestyle Centre post balance date our gearing has dropped to 32%, near the bottom end of our 30-40% target gearing range. Our current percentage of bonds to total debt is 40% - and one of our big goals is to get this above 50% over the medium term.

[SLIDE 22] LEASE EXPIRY

We did have a solid leasing year despite the Covid environment – leasing 15% of the portfolio by NLA. Leasing activity is certainly nearing back to pre Covid levels.

The lease expiry profile as you can see is relatively stable over the medium term. Looking at current negotiations underway, FY22 should demonstrate some resilience across the portfolio.

Our largest single expiry is March-27 at Stout Street with MBIE and we don't believe they have any intentions on moving from this 5 Green Star rated building.

[SLIDE 23] MARKET UPDATE

Industrial sector net absorption continues to drive additional supply. Limited land supply placing upward pressure on values. Good rental growth surprised a little on the upside based on where things were looking last year. Covid-19 impacts have been muted.

Wellington office sector still experiencing solid demand – although some additional supply coming on stream. Rental growth softer in Auckland due to oversupply but firmer in Wellington where supply is tighter.

Large format retail has been a strong performer for us delivering solid rental growth and revaluation gains. Structural changes in the sector are afoot in terms of more grey and dark stores materialising as a result of Covid-19 which will have a greater impact on the retail sector as a whole.

[SLIDE 24] LOOKING AHEAD

So, the 2022 year will have its own challenges.

The domestic and international economic outlook still looks tough and vaccination rollouts whilst initially looking strong, are looking a bit more mixed of late.

Monetary policy settings could change in the near to medium term but there is still some uncertainty around this coming to fruition.

Discussions with tenants suggests their biggest concern is the quality of their landlord they partner with. So we will continue to focus on managing these strong and valued relationships over the next 12 months.

Our focus is as always - maximising portfolio performance, retaining tenants, resolving vacancies and addressing key lease expiries.

The property market fundamentals are still robust and we will be focused on delivering on completing our remaining developments.

Now, I will hand you back to the Chairman.

– END –

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