

# Dexus (ASX:DXS)

## ASX release



14 August 2019

### 2019 Annual results – Securing opportunities. Adding value

Dexus today announced that it had achieved 5.5% Adjusted Funds From Operations<sup>1</sup> (AFFO) per security growth and 5.0% distribution per security growth for FY19, and confirmed its guidance of circa 5% distribution per security growth for FY20.

Dexus Chief Executive Officer, Darren Steinberg said: “We entered the year with a clear strategy and readiness to respond to both market opportunities and challenges. Our focus on maintaining a leading position in the Australian property market has been achieved through the performance of our property portfolio, selective acquisitions with future value-add, growth in our funds management business and the delivery of trading profits, all contributing to our strong financial result.

“We have performed well across all areas of the business, meeting our distribution guidance while remaining focused on creating sustained value.

“In a year of significant transaction activity, we secured \$3.1 billion of quality acquisition opportunities, increasing our office exposure in core markets and enhancing our embedded pipeline of office development projects in both the Melbourne and Sydney CBDs. This was achieved while maintaining our strong and conservative balance sheet.

“Our office portfolio continued to outperform the MSCI office benchmark<sup>2</sup> over three and five years through driving higher rents and lower incentives. Our \$16.2 billion funds management business grew through the introduction of new third party capital partners, and importantly, all funds achieved strong performance.

“The strength of our results is testament to our workforce, and our people continued to demonstrate high levels of engagement reflected through the employee Net Promoter Score of +40.”

### FINANCIAL HIGHLIGHTS

- AFFO per security of 50.3 cents, up 5.5% on FY18
- Distribution per security of 50.2 cents, up 5.0% on FY18
- Net profit after tax of \$1.28 billion, down 25.9% primarily due to net revaluation gains of investment properties being lower than those recognised in FY18
- Return on Contributed Equity<sup>3</sup> (ROCE) of 10.1%
- Gearing (look-through)<sup>4</sup> of 24.0%

### OPERATIONAL HIGHLIGHTS

#### *Property portfolio*

- Leased a total of 567,039 square metres across the total Dexus portfolio, maintaining high portfolio occupancy<sup>5</sup> of 98.0% for Dexus office and 97.0% for Dexus industrial portfolios
- Dexus office portfolio continued to outperform the MSCI office benchmark<sup>2</sup> over three and five years, with Dexus industrial outperforming the MSCI industrial benchmark<sup>6</sup> over one and three years
- Achieved strong leasing outcomes at key developments located in North Sydney and Perth
- Enhanced the group’s circa \$9.3 billion development and concept pipeline

#### *Funds Management*

- Established the circa \$2 billion<sup>7</sup> Dexus Australian Logistics Trust (DALT) and attracted new investors across three other managed funds
- Achieved strong performance across all funds with Dexus Wholesale Property Fund (DWPF) continuing its outperformance over one, three, five, seven and ten years

#### *Trading*

- Delivered \$34.7 million of trading profits (post-tax) in FY19
- Significantly de-risked trading profits for FY20 and FY21

#### *People, customers, communities and the environment*

- Achieved a strong employee Net Promoter Score of +40 and customer Net Promoter Score of +46
- Achieved a strong score of 98% on independent external safety audits of Dexus’s corporate and management workplaces across Australia
- Achieved our 2020 target to reduce like-for-like energy use and emissions by 10% (FY15 base year)
- Progressed our goal to achieve net zero carbon emissions by 2030, securing one of Australia’s first supply-linked renewable Energy Supply Agreements

## Financial results

Dexus's net profit after tax was \$1.28 billion, down 25.9% on the prior year. The key driver of this movement was \$773.1 million net revaluation gains, which were \$428.7 million lower than FY18. These revaluation gains, alongside an institutional placement and Security Purchase Plan (SPP), also drove the 84 cent increase in net tangible assets (NTA) per security to \$10.48.

Operationally, Funds From Operations (FFO) increased \$28.2 million or 4.3% to \$681.5 million. The underlying business, excluding trading profits, delivered FFO per security of 62.9 cents, growing by 3.8% on the prior year. AFFO per security of 50.3 cents grew 5.5%.

Distributions per security were 50.2 cents, up 5.0% on the prior year, with the distribution payout remaining in line with free cash flow in accordance with Dexus's distribution policy.

Dexus achieved a ROCE for FY19 of 10.1% driven largely by the strong AFFO result as well as revaluation gains from the recently completed development at 100 Mount Street in North Sydney.

Dexus continued to maintain a strong and conservative balance sheet with gearing (look-through) at 24.0% at 30 June 2019, well below Dexus's target range of 30-40%. In May 2019, an equity raising comprising a \$900 million institutional placement and a \$63.9 million SPP, which was increased from its original \$50 million cap, was used to partially fund Dexus's 75% interest in 80 Collins Street, Melbourne.

Total debt duration remained high at 6.7 years and Dexus further diversified its funding sources through the issue of \$425 million of Exchangeable Notes to fund the acquisition of a further 25% interest in the MLC Centre, Sydney.

## Securing opportunities. Adding value

Darren Steinberg said, "A consequence of our scale means that we are continually reviewing acquisition opportunities and seeking properties where we can add value."

This approach resulted in the group securing \$3.1 billion of opportunities this year directly for Dexus and in conjunction with our third party capital partners while increasing Dexus's exposure in a tightly held precinct of the Melbourne CBD. These included:

- a future development site at 60 and 52 Collins Street, Melbourne (100% Dexus) to create the latest generation of prime office space in the 'Paris end' of the Melbourne CBD
- a large-scale mixed-use development at 80 Collins Street, Melbourne (75% Dexus, 25% DWPF), further expanding Dexus's presence in the 'Paris end' of the Melbourne CBD
- the remaining 50% interest in MLC Centre, Sydney (25% Dexus, 25% DWPF), enabling commencement of the project to transform the precinct into a true mixed-use destination, which involved securing a long-term lease with the NSW Government to enable the reactivation of the Theatre Royal
- three properties located adjacent to 56 Pitt Street, Sydney (50% Dexus, 50% Dexus Office Partner), two of which have exchanged to be acquired on delayed settlement terms post 30 June 2019, providing a compelling opportunity to consolidate the site to create a potential super site (Pitt and Bridge precinct) and deliver a significant office development located in the financial core of the Sydney CBD for a future supply cycle

## Property portfolio

### Dexus Office Portfolio

| Key metrics                               | 30 June 2019 | 30 June 2018 |
|---|--------------|--------------|
| Occupancy by income                       | 98.0%        | 96.0%        |
| Weighted average lease expiry (by income) | 4.4 years    | 4.6 years    |
| Average incentives <sup>8</sup>           | 13.4%        | 13.9%        |
| Weighted average cap rate                 | 5.15%        | 5.37%        |

### Dexus Industrial Portfolio

| Key metrics                               | 30 June 2019 | 30 June 2018 |
|---|--------------|--------------|
| Occupancy by income                       | 97.0%        | 98.3%        |
| Weighted average lease expiry (by income) | 4.7 years    | 4.8 years    |
| Average incentives                        | 11.7%        | 12.6%        |
| Weighted average cap rate                 | 5.92%        | 6.40%        |

During the year, Dexus leased 189,459 square metres of office space across 267 transactions and 52,815 square metres of space across office developments, locking in future income streams.

Executive General Manager, Office, Kevin George, said: “It has been an excellent year in which we converted robust enquiry to significant leasing success, including at our key office developments, 100 Mount Street in North Sydney and 240 St Georges Terrace in Perth. 100 Mount Street is now 96% committed after completing in May this year, while 240 St Georges Terrace is now 93% committed.”

The Dexus office portfolio delivered 3.4% like-for-like income growth which was affected by vacancy at Sydney Olympic Park as well as a tenant dispute in Queensland, with the timing for receipt of proceeds uncertain. The Queensland space has already been leased to a new customer who is now in occupation.

The Dexus office portfolio achieved a 10.6% total return for the year which was driven by valuation uplifts and leasing. Occupancy increased to 98.0% at 30 June 2019 (FY18: 96.0%) driven by leasing in Dexus’s largest core market, Sydney, as well as Brisbane.

During the year, Dexus leased 324,765 square metres of industrial space across 87 transactions with Dexus’s industrial portfolio occupancy remaining high at 97.0% and the portfolio delivering like-for-like income growth of 8.0%<sup>9</sup>, an elevated result due to one-off income achieved above forecast.

#### *Customer*

Kevin George said: “Our customers are at the heart of what we do. We spend time understanding their needs and delivering solutions to help them thrive in their workspace.

“Our team continued to drive great customer experience outcomes during the year as evidenced by our strong customer Net Promoter Score of +46 (out of a possible range of -100 to +100) and customer satisfaction score of 8.6 out of 10 in our latest customer survey. These scores have improved, and survey participation increased, on the back of the strength of our customer relationships.”

#### *Development*

Chief Investment Officer, Ross Du Vernet said: “Our circa \$9.3 billion group development and concept pipeline provides us with the opportunity to enhance future returns on balance sheet and within our funds. Development is an efficient use of our capital at this time in the cycle when access to quality properties on-market is competitively bid. Our \$7.1 billion group development pipeline comprises committed and uncommitted projects and our circa \$2.2 billion pipeline of potential concept development projects provides us with embedded future growth.

“Our newly completed office development at 100 Mount Street in North Sydney, owned by Dexus and DWPF, provides a showcase for smart building technology and sets a new benchmark for office in the North Sydney CBD. This project has also delivered an exceptional IRR of 39.6%. The development of our premium industrial estate at Quarry, Greystanes was also completed, delivering a key economic hub to Western Sydney.”

#### *Transactions*

Dexus announced or completed \$3.9 billion of transactions for the group which included \$0.8 billion of divestments. Key acquisitions included the large-scale mixed-use development at 80 Collins Street, Melbourne for \$1.476 billion<sup>10</sup> and the remaining 50% interest in MLC Centre, Sydney for \$800 million<sup>11</sup> enabling the commencement of the precinct project to transform the site into a true mixed-use destination.

### **Funds Management**

Executive General Manager, Funds Management, Deborah Coakley said: “Our funds management business grew by 16% to \$16.2 billion and we now manage 129 properties on behalf of 79 third party capital partners.

“During the year, we welcomed GIC as a foundation investor in the newly created Dexus Australian Logistics Trust, a circa \$2 billion portfolio seeded with assets from Dexus’s existing industrial portfolio. We also welcomed M&G Real Estate as a new investor in the Dexus Industrial Partnership and Employees Provident Fund (EPF) Malaysia as a new investor in the Healthcare Wholesale Property Fund (HWPF). DWPF attracted 9 new investors during the year, including six investors who joined through a \$340 million equity raising.

“All funds delivered strong performance, with DWPF achieving a one-year total return of 10.24%, outperforming its benchmark over one, three, five, seven and ten years. The Dexus Office Partnership has achieved an annualised unlevered total property return of 14.3% since inception.”

Post 30 June 2019, Dexus reached agreement to restructure the investment management joint venture with Commercial & General for HWPF, resulting in a streamlined governance structure and Dexus continuing as the sole investment manager of the Fund. Dexus has also agreed to purchase Commercial & General’s units in HWPF.

### **Trading**

Dexus delivered \$34.7 million of trading profits net of tax from the sale of 32 Flinders Street, Melbourne.

Dexus progressed the sale of the North Shore Health Hub, St Leonards<sup>12</sup>, and post 30 June 2019 exchanged contracts to sell a 25% interest in 201 Elizabeth Street, Sydney, while entering into a put and call option to sell the remaining 25% interest in late 2020. The sale of 201 Elizabeth Street is expected to

contribute circa \$34 million in trading profits pre-tax in FY20 and a further circa \$34 million in FY21 in the event either option is exercised. Dexus is targeting \$35-40 million of trading profits<sup>13</sup> net of tax in FY20.

A total of five projects<sup>13</sup> diversified across sectors and trading strategies have been earmarked to deliver trading profits of \$210-300 million pre-tax in future years.

### Value created for our people, communities and the environment

Darren Steinberg said: "We have a highly engaged workforce which is focussed on delivering outcomes for our customers, third party capital partners and Security holders."

Dexus maintained its steadfast focus on safety during the year, achieving a strong score of 98% on independent external safety audits of Dexus's corporate and management workplaces across Australia.

Dexus is committed to contributing to society by creating quality jobs with the right conditions. Recognising the global challenge of addressing modern slavery and with the new Modern Slavery Act coming into effect in Australia on 1 January 2019, Dexus signed up to the UN Global Compact, signalling its continued commitment to corporate sustainability principles. Dexus also updated its Human Rights Policy and formed an internal Modern Slavery Working Group involving broad operational functions collaborating with service providers to understand how Dexus can support and contribute to upholding human rights across its supply chain.

This year Dexus progressed its long-term goal to achieve net zero carbon emissions by 2030 through improving energy efficiency and increasing the adoption of renewable energy sources. Importantly, Dexus obtained external certification via the Science Based Target Initiative (SBTi) that its 2030 target aligns with the global ambitions of the Paris Agreement.

Dexus progressed its 2020 NABERS targets and secured one of Australia's first supply-linked renewable Energy Supply Agreements through which 50% of base building power, across 40 NSW properties, will be sourced from wind and solar projects from 1 January 2020.

### Outlook and guidance

Darren Steinberg said: "Dexus is on track and achieving results, with embedded value and exciting opportunities across the portfolio.

"Importantly, we are well positioned for continued success despite increased economic uncertainty. We have high portfolio occupancy with fixed rental increases, limited supply in our core markets and the Australian office yield spread to bonds remains attractive from a global perspective.

"Our circa \$9.3 billion group development and concept pipeline is a source of embedded long-term value, and the diversification of our funds management business sets us up for further expansion as domestic and global pension fund flows continue to grow."

Dexus's market guidance<sup>14</sup> for the 12 months ending 30 June 2020 is to deliver distribution per security growth of circa 5%.

### 2019 Annual Reporting Suite

This *ASX announcement* should be read in conjunction with the *2019 Annual Results presentation, 2019 Annual Report, 2019 Financial Accounts, 2019 Sustainability Performance Pack and 2019 Property Synopsis*, released to the Australian Securities Exchange today and available at [www.dexus.com](http://www.dexus.com)

### Investor conference call and webcast

Dexus will hold an investor conference call at 9:30am (AEDT) today, 14 August 2019, which will be webcast via the Dexus website ([www.dexus.com](http://www.dexus.com)) and available for download later today.

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- 1 AFFO in accordance with guidelines provided by the Property Council of Australia (PCA): comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark-to-market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, transaction costs, rental guarantees and coupon income, less maintenance capital expenditure and lease incentives.
  - 2 Period to 31 March 2019 which reflects the latest available MSCI Australian Quarterly Digest for Office Property benchmark (formerly IPD) data.
  - 3 Return on Contributed Equity (ROCE) is calculated as AFFO plus the net tangible asset impact from completed developments divided by the average contributed equity during the period.
  - 4 Adjusted for cash and debt in equity accounted investments.
  - 5 By income.
  - 6 Period to 31 March 2019 which reflects the latest available MSCI Australian Quarterly Digest for Industrial Property benchmark (formerly IPD) data.
  - 7 Seeded with assets from Dexus's existing industrial portfolio comprising \$1.4 billion of core logistics properties and a \$138 million development landbank (circa \$0.5 billion on completion).
  - 8 Excluding development leasing of 52,815 square metres.
  - 9 Excluding one-off income across the portfolio, like-for-like income growth is +2.5%.
  - 10 The Total Acquisition Cost reflects the gross price for the acquisition of 100% of 80 Collins Street, Melbourne excluding transaction costs and subject to customary adjustments. The Total Acquisition Cost comprises i) payments for the 80 Collins precinct on an "as-is" basis of \$1.082 billion, ii) payments for remaining costs to complete of \$290 million, and iii) payments for assumed outstanding incentives and North Tower capital expenditure liabilities of \$104 million. Dexus will fund 75% of the Total Acquisition Cost with DWPF funding the remaining 25%.
  - 11 Dexus and DWPF each acquired an additional 25% interest.
  - 12 Sale of the North Shore Health Hub is subject to Responsible Entity and Advisory Committee approvals and securing debt financing.
  - 13 Including contribution from 201 Elizabeth Street, Sydney and North Shore Health Hub, 12 Frederick Street, St Leonards – Stage 1.
  - 14 Barring unforeseen circumstances, guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; FFO per security growth of circa 3%, underlying FFO per security growth of circa 3%, underpinned by Dexus office portfolio like-for-like income growth of 4.5-5.5%, Dexus industrial portfolio like-for-like income growth (excluding one-offs) of 3-4%, management operations FFO of \$55-60 million, cost of debt of mid-3%; trading profits of \$35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of \$170-185 million; and excluding any further transactions.

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**About Dexus**

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at \$31.8 billion. We believe that the strength and quality of our relationships is central to our success, and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own \$15.6 billion of office and industrial properties. We manage a further \$16.2 billion of office, retail, industrial and healthcare properties for third party clients. The group's circa \$9.3 billion development and concept pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.7 million square metres of office workspace across 53 properties, we are Australia's preferred office partner. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by 26,000 investors from 19 countries. With 35 years of expertise in property investment, development and asset management, we have a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for investors. [www.dexus.com](http://www.dexus.com)

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