Dexus Convenience Retail REIT (ASX:DXC)

ASX release

12 August 2024

2024 Annual results presentation and property synopsis

Dexus Convenience Retail REIT (ASX:DXC) releases its 2024 Annual results presentation.

An investor conference call will be webcast today at 10.00am on www.dexus.com/investor-centre

The property synopsis excel workbook is also available at www.dexus.com/convenience

Authorised by the Board of Dexus Asset Management Limited

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About Dexus Convenience Retail REIT

Dexus Convenience Retail REIT (ASX code: DXC) is a listed Australian real estate investment trust which owns high quality Australian service stations and convenience retail assets. At 30 June 2024, the fund's portfolio is valued at approximately $741 million, is predominantly located on Australia's eastern seaboard and leased to leading Australian and international convenience retail tenants. The portfolio has a long lease expiry profile and contracted annual rent increases, delivering the fund a sustainable and strong level of income security. The fund has a conservative approach to capital management with a target gearing range of 25 – 40%. Dexus Convenience Retail REIT is governed by a majority Independent Board and managed by Dexus (ASX code: DXS), one of Australia's leading fully integrated real asset groups, with over 35 years of expertise in property investment, funds management, asset management and development. www.dexus.com

Dexus Asset Management Limited (ACN 080 674 479, AFSL No. 237500) (the "Responsible Entity") is the responsible entity and issuer of the financial products in respect of Convenience Retail REIT No. 1 (ARSN 101 227 614), Convenience Retail REIT No. 2 (ARSN 619 527 829) and Convenience Retail REIT No. 3 (ARSN 619 527 856) collectively the Dexus Convenience Retail REIT (ASX code: DXC) stapled group. The Responsible Entity is a wholly owned subsidiary of Dexus (ASX code: DXS).

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DXC | dexus

Dexus Convenience Retail REIT

Dexus Asset Management Limited ACN 080 674 479 AFSL 237 500
as responsible entity for Dexus Convenience Retail REIT

2024
Full year results

12 August 2024

Acknowledgement of Country

Dexus Convenience Retail REIT acknowledges the Traditional Custodians of the lands on which our business and assets operate, and recognises their ongoing contribution to land, waters and community.

We pay our respects to First Nations Elders past and present.

Artwork:
Changing of the Land by Sharon Smith.

Agenda

01

Introduction and highlights

14 Commercial Road, Shiedow Park SA

DXC investment proposition

Providing investors with exposure to defensive income with embedded growth

Generate defensive income

- High occupancy and long WALE
- Diversified mix of fuel and convenience retail operators
- Secure distribution yield backed by high-quality tenant covenants

Prudent capital structure

- Continuing to manage gearing around the midpoint of the target range
- High interest rate hedge cover
- Significant headroom to covenants

Active portfolio management

- Continuing to explore capital recycling opportunities
- Strategic growth opportunities beyond fuel & convenience

Aligned manager with deep real asset capability

- Dexus is committed to delivering performance for investors across its funds management platform
- Deep capability across transactions, developments, asset management, treasury and sustainability

Key metrics

99.7% occupancy (by income)

8.8 year WALE (by income)

7.3% distribution yield[1]

32.9% gearing

75% average FY24 debt hedged

9% Dexus principal ownership

1. Based on closing security price as at 8 August 2024.

FY24 highlights

Continued income resilience supported by active capital management

Delivered upper end of guidance range

- FFO & distributions of 21.0 cents per security, at the upper end of the 20.8 – 21.1 cents guidance range

Balance sheet strength supported by divestments

- Gearing of 32.9% around the midpoint of target range benefitting from $57 million of divestments over the past two years ($23.3 million in FY24)
- Sold two assets in August 2024 for $5.9 million at a 2.4% average premium to prior book values, with the potential sale of up to an additional circa $40 million under negotiation
- Maintained long average debt maturity of 4.2 years following $130 million of facility extensions, and retired a $30 million surplus facility to optimise overall debt costs

Generate defensive and growing income

- +3.4% average rent review achieved
- +2.8% like-for-like income growth
- Enhanced design of Glass House Mountains redevelopment to include an expanded, new On The Run convenience retail offering focused on food-on-the-go, grocery convenience and an internal quick service restaurant

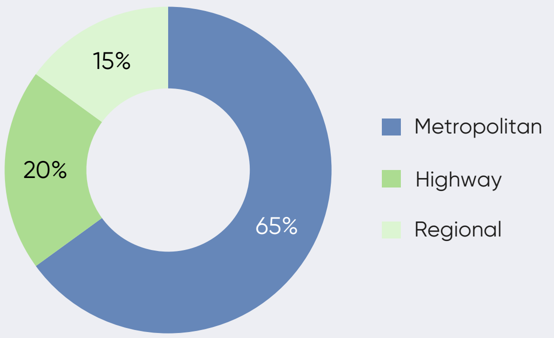
Enhanced portfolio attributes

- Portfolio reflects valuable landbank skewed to the eastern seaboard
- 89% of zoning to high value land uses (commercial, industrial, residential and mixed use)
- Potential for circa 20 value-add opportunities over the long term, subject to commercial considerations
- Top tenants publicly committed to investing in long-term site performance
- Continuing to diversify exposure to convenience retail tenancies over time

Secure and defensive income with embedded growth

High-quality portfolio

Weighted to metro and highway sites
(% by value)



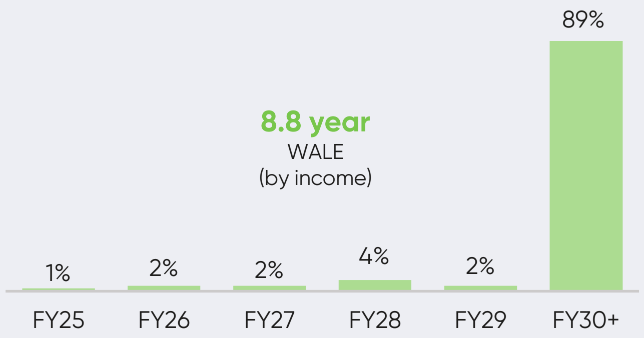
100
properties

$741m
portfolio value

78%
weighted to eastern seaboard

Income resilience

No significant lease expiries until 2030+
(% by income)



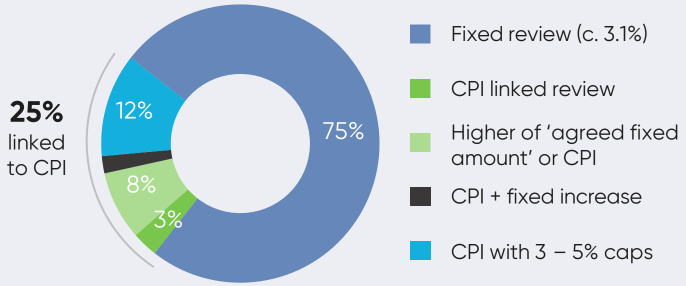
99.7%
occupancy (by income)

95%
income from major tenants

12%
income from non-fuel tenants

Embedded growth

Attractive property rental increases per annum
(% by income)



75%
income fixed c. 3.1% p.a. growth

25%
income linked to CPI

+3.4%
average FY24 rent review

Diverse and high-quality tenants committed to network enhancement

Top tenants continue to reinvest in their sites

Chevron

- Material investment into re-branding national network from Puma to Caltex
- Net increase in national leasehold network via Viva Energy leases assigned to Chevron as part of Viva Energy's acquisition of OTR

Viva Energy

- Acquired On The Run Group and Reddy Express for $1.45 billion[1]
- Stated strategy to become a fully-integrated fuel and convenience retailer
- Intends to grow non-fuel earnings to >50% across 1,000+ stores

7-Eleven Australia

- Acquired by 7-Eleven International LLC
- Commitment to expand 7-Eleven Australia's network
- Focus on enhancing 7-Eleven Australia's food offering by leveraging exposure to 84,000 stores in 20 countries with varied formats

BP

- Undertaking acquisition of over 50 X Convenience sites (of which two are in the DXC portfolio) to expand national network and leverage its expertise in convenience retail
- Stated global strategy to double number of strategic convenience sites to 2030

DXC benefits from a diverse tenant base

1. Based on headline consideration. Reddy Express formerly Coles Express.

Sustainability progress

DXC initiatives

Maintained carbon neutral position across DXC controlled and managed operations for FY23 as part of the Dexus group submission[1]

100% renewable electricity sourced for controlled assets

Embedded initiatives into Glass House Mountains Northbound redevelopment including 10 EV charging bays

Engaging with five major tenants to progress solar PV and EV charging rollout across 22 sites

Supporting tenants in their varied approaches to the shift in the energy mix

Continued rollout of **EcoVadis sustainability tracking** to vendors

Aligned to Dexus Sustainability Strategy

Priority Area	DXC future focus
Customer Prosperity	Maximise value creation by supporting tenants with their strategies for the emerging opportunities in convenience retail together with the long-term shift in the energy mix
Climate Action	Integrate climate action-related initiatives within new developments, with a focus on renewable energy, water and energy conservation and resilience
Enhancing Communities	Amplify social impact through supporting Dexus charity partnerships

1. Covers scope 1, 2 and some scope 3 emissions. Refer to FY23 Sustainability Data Pack available on Dexus website for scope 3 inclusions.

02

Financial overview

485 Balfour Street, Southern River SA

FY24 financial result

FFO and distributions delivered at upper end of guidance range

Profit & loss	FY24	FY23	Change
Property FFO ($m)	45.2	47.0	(3.9)%
Management fees ($m)	(4.9)	(5.3)	(7.7)%
Net finance costs ($m)	(10.4)	(10.6)	(1.5)%
Other expenses ($m)	(1.0)	(1.3)	(28.2)%
FFO ($m)	**28.9**	**29.8**	**(2.9)%**
FFO (cents per security)	21.0	21.6	(2.9)%
Distributions (cents per security)	21.0	21.6	(2.9)%
FFO payout ratio (%)	100.0%	100.0%	-
Balance sheet	**30 Jun 2024**	**30 Jun 2023**	**Change**
NTA per security ($)	$3.56	$3.75	(5.1)%

- Lower income from divestments, partly offset by like-for-like income growth of 2.8%
- Average portfolio value lower due to divestments and property devaluations
- Average debt balance $34 million lower due to divestments, partly offset by average cost of debt increasing 50bps due to higher floating interest and hedge rates
- Predominantly reflects property portfolio devaluations

Balance sheet and capital management

Gearing at midpoint of target range, prudent hedging and minimal near-term expiries

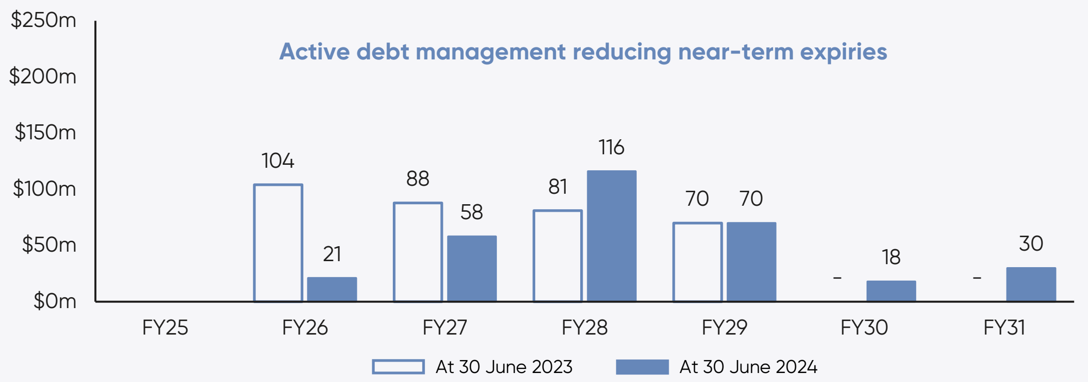
Leveraged Dexus platform to extend **$130 million of facilities** at lower margins

Executed **$30 million facility cancellation** to optimise overall debt costs

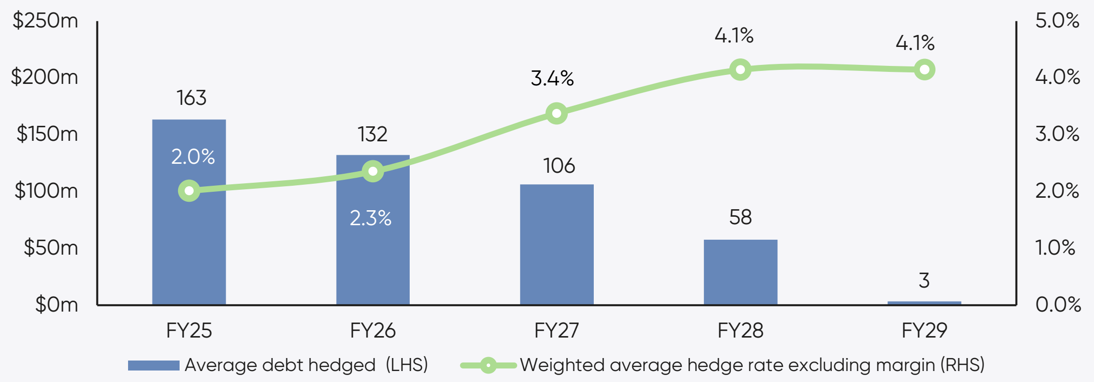
Continued to **manage gearing around midpoint of 25-40% target range** supported by divestments

Key metrics	30 Jun 2024	30 Jun 2023
Gearing[1]	32.9%	31.8%[2]
Cost of debt[3]	4.2%	3.7%
Average maturity of debt	4.2 years	4.2 years[4]
Average hedged debt (incl caps)	75%	64%
Total borrowings	$243.2m	$263.4m
Headroom[5]	$67.7m	$80.5m[4]

Debt maturity profile (total facility limit)



Interest rate hedging profile



1. Adjusted for cash. | 2. Pro forma for the sale of 656 Bruce Highway, Woree, QLD, 1182 Chapman Road, Glenfield WA, 264 Browns Plains Road, Browns Plains, QLD and 323 North East Road, Hampstead Gardens, SA which settled post 30 June 2023. At 30 June 2023, gearing was 33.4%. | 3. Weighted average for the period, inclusive of fees and margins on a drawn basis. | 4. Pro forma for $30 million facility extension that occurred on 31 July 2023. | 5. Undrawn facilities plus cash.

Glass House Mountains fund-through redevelopment

Significantly enhancing the convenience retail offering

Redevelopment of a large dual highway site into two modern service stations with an **extensive convenience retail and quick service restaurant offering**

Northbound project (Stage 1):

Secure income backed by **Viva Energy, McDonalds, GYG and KFC on a 15-year average lease term**; attractive income mix with **45% contribution from quick service restaurant offering**

Project commencement delayed by six months[1] to accommodate **new, expanded On The Run convenience retail offering on the Viva Energy site**, focused on food-on-the-go, grocery convenience and an internal quick-service restaurant

Expected to deliver strong development returns in comparison to DXC cost of capital[2]

Inclusion of new sustainability initiatives, including 10 EV charging bays, rooftop solar, rainwater harvesting, grey water reuse and new fuel tank technology

Site	Site area	Est. project costs	Est. yield on cost
Northbound (Stage 1)	c. 25,000sqm	c. $20m	5.5 – 6%
Southbound (Stage 2)	c. 63,000sqm	c. $25m	5 – 6%

Indicative project timing

	FY25		FY26		FY27	
Site	1H	2H	1H	2H	1H	2H
Northbound (Stage 1)						
Southbound (Stage 2 – uncommitted)						

1. Change in project commencement has no financial impact to DXC.
2. Based on independent valuation on completion estimates.

Portfolio valuations

High income certainty continues to support valuation outcomes

Property portfolio valuation summary – 30 Jun 2024						
Portfolio	Properties	30 Jun 2024 book value ($m)	Total reval change ($m)	Total reval change (%)	Cap rate (%)	Cap rate 12 month mvmt (bps)
Metropolitan	70	$477	$(14.0)	(2.9)%	6.31%	32 bps
Highway	9	$151	$(5.0)	(3.2)%	6.20%	24 bps
Regional	21	$113	$(4.6)	(3.9)%	7.06%	33 bps
Total	**100**	**$741**	**$(23.7)**	**(3.1)%**	**6.40%**	**30 bps**

- **Pace of cap rate expansion slowed** (20bps 1H; 10bps 2H) with 66bps total expansion since FY22
- **Contracted rent growth** continues to partly offset the impact of cap rate movements
- Transaction volumes continue to support **asset price discovery** amidst higher interest rates
- **Average cap rate of 6.40% remains above the marginal cost of debt,** with broad-based appeal to direct property market investors

Transaction market

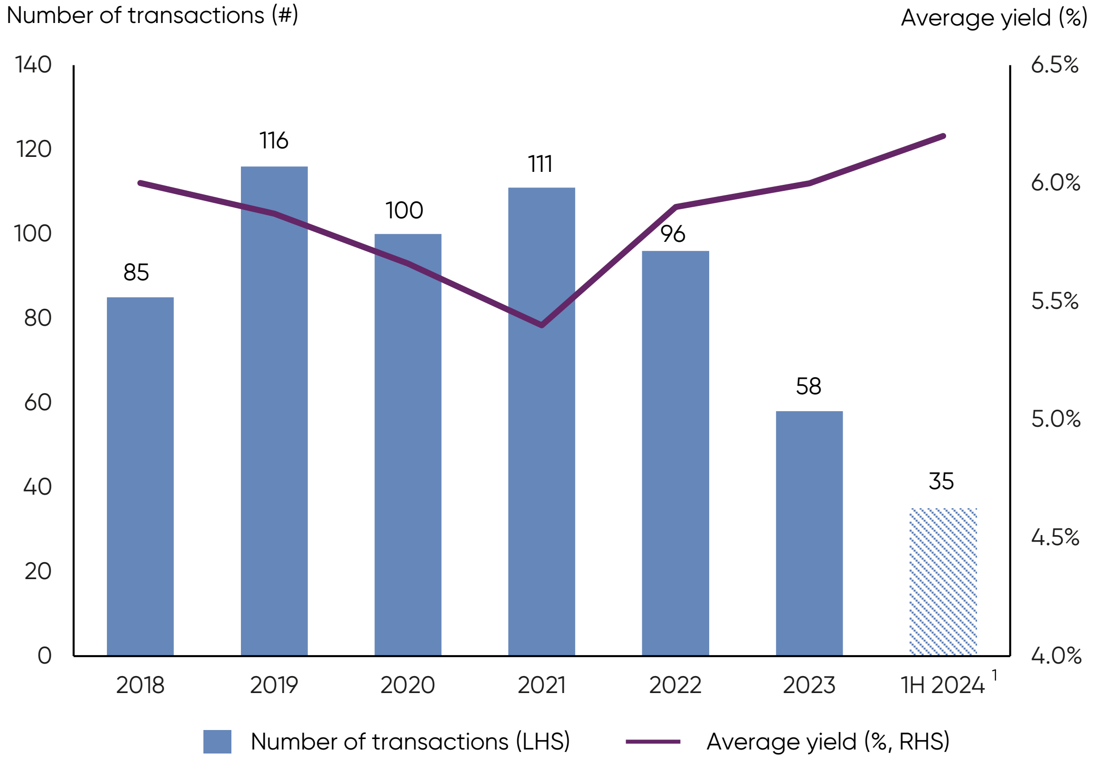
Liquid transaction market allowing for asset price discovery

Fuel & convenience property transaction volumes below historical averages due to interest rate environment, although overall volumes remain relatively robust **allowing for asset price discovery**

Recent transaction evidence for **assets with quick-service-restaurant retailing attached reflects strong pricing** supports the Glass House Mountains redevelopment

Fuel & convenience transaction volumes supported by investors taking a **long-term view on underlying land value growth and tenant lease renewal potential**

Transactions volumes and average yield



Source: Burgess Rawson, Savills.
1. Year to date volumes based on January to June 2024.

03

Summary

Cnr Northcote Street & Main Road, Kurri Kurri NSW

Attractive investment proposition

Well placed to generate defensive income with embedded rental growth backed by high-quality tenant covenants

Focus on maintaining a prudent capital structure with consideration for DXC's defensive portfolio attributes

Continue to assess capital redeployment into high-returning opportunities, including execution of the Glass House Mountains redevelopment

FY25 guidance:
FFO and distributions of 20.6 cents per security, based on contracted property income growth, current interest rate expectations, circa $40 million of asset sales currently under negotiation and barring unforeseen circumstances

1180 Beaudesert Road, Acacia Ridge QLD

7.3%
distribution yield based on FY25 guidance[1]

1. Based on closing security price as at 8 August 2024.

04

Appendices

303 Glen Osmond Road, Glenuga SA

Network overview

High-quality portfolio with national presence

100
properties

66
specialty retail tenancies

665,500sqm
total site area

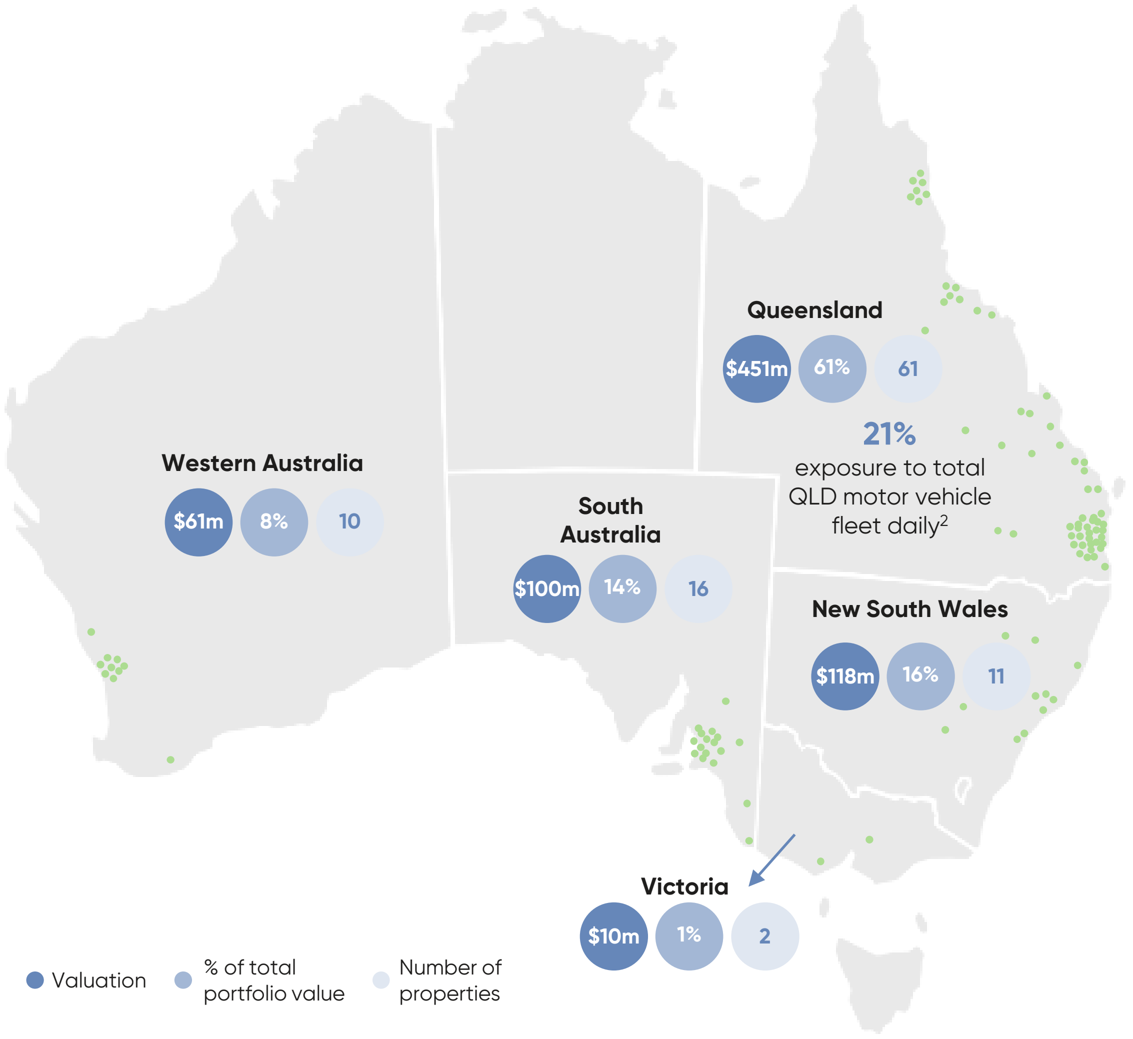
2.7m
people within 3km radius[1]

35%
average site coverage

8%
exposure to total Australian motor vehicle fleet daily[2]

78%
weighted to eastern seaboard

c. 20
value-add opportunities over the long term, subject to commercial considerations

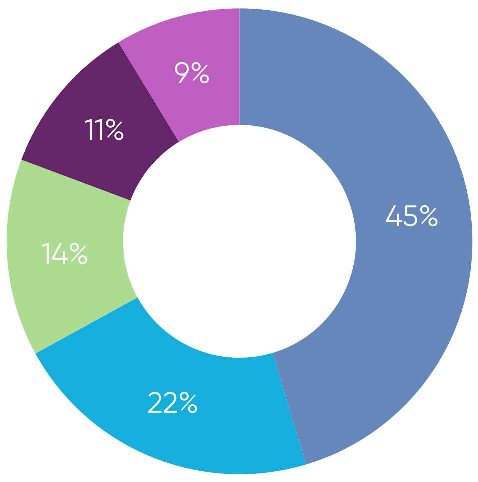


1. Estimate as at 30 June 2024 sourced from AreaSearch. Based on 3km radius.
2. Portfolio estimated traffic count data based on portfolio as at 31 January 2024. Australian and Queensland total motor vehicle data sourced from BITRE.

Valuable income producing landbank

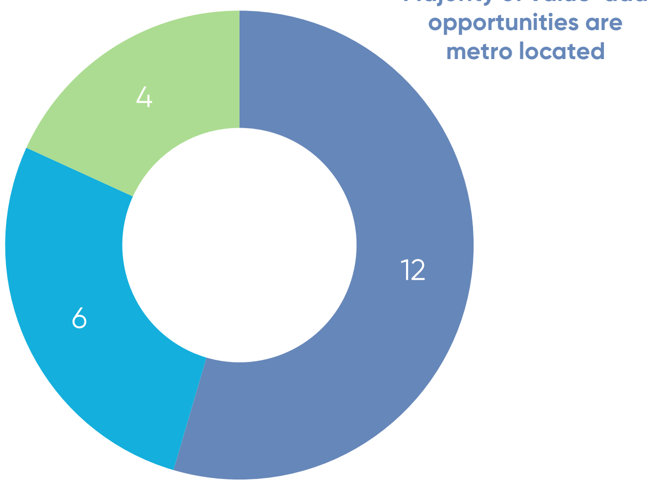
89% of zoning to high value land uses

Book value by zoning (%)



Potential for circa 20 value-add opportunities over the long term, subject to commercial considerations

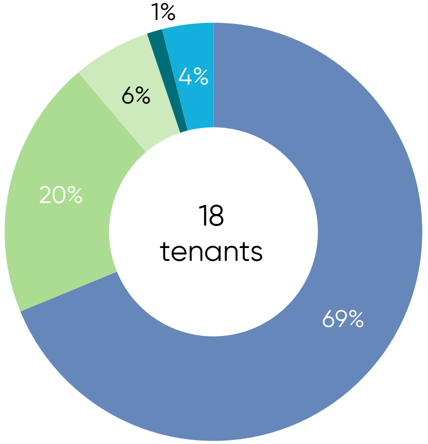
Value-add opportunities (#)



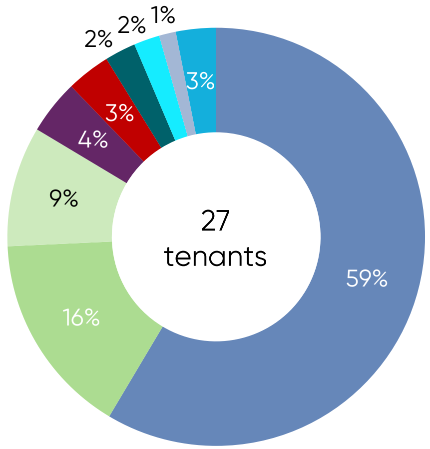
Tenancy mix over time

Increased tenant diversity and direct exposure to convenience retail tenancies

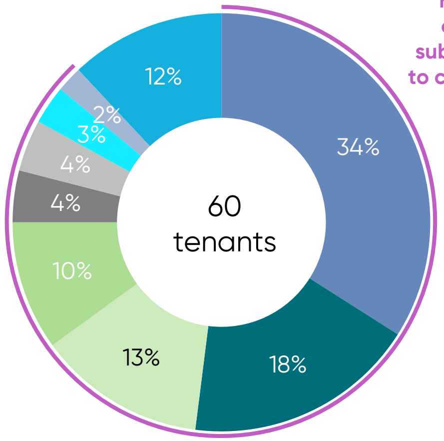
IPO (July 2017)
% of income



June 2020
% of income



June 2024
% of income



Fuel operators receive rental income from convenience retail sub-tenants equivalent to c. 11% of DXC's income

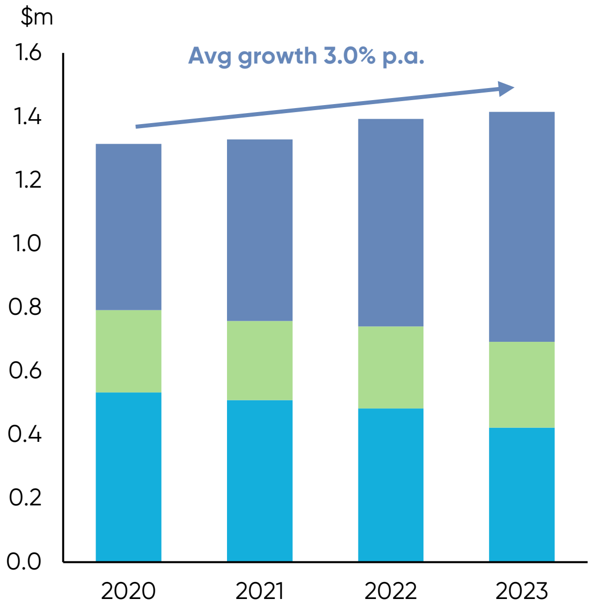
Direct exposure to a range of QSR and other national tenants

1. Now Chevron.
2. Now Reddy Express.

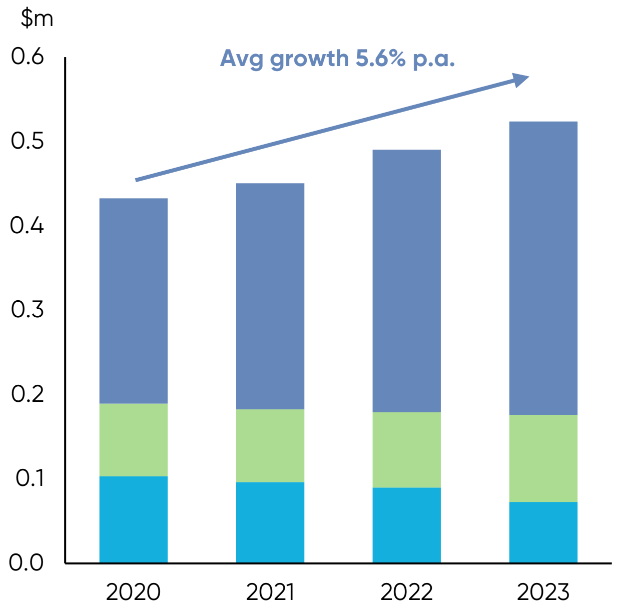
Australian convenience retail sector

Growth in store sales and shift in consumer preferences towards higher margin sales categories

Average convenience retail sales per site



Average convenience gross profit per site



Average retail gross margins (excl. fuel)	2020	2021	2022	2023
	32.9%	33.9%	35.2%	37.0%

- Top selling categories with growing margins (incl. food service, hot drinks, beverages, confectionary)
- Other categories (communications, printed materials, car accessories)
- Tobacco

Australian sector trends

Operators continue to meaningfully invest in convenience retail capability including through M&A

Reconfiguring store offerings toward higher margin products has supported convenience retail store profitability

Convenience retail proportion of shop gross margins is low at c. 30% compared to mature offshore markets >50%; **scope for growth driven by continued investment in retail capability**

Tenants continue to explore additional site enhancements including alternative energy sources

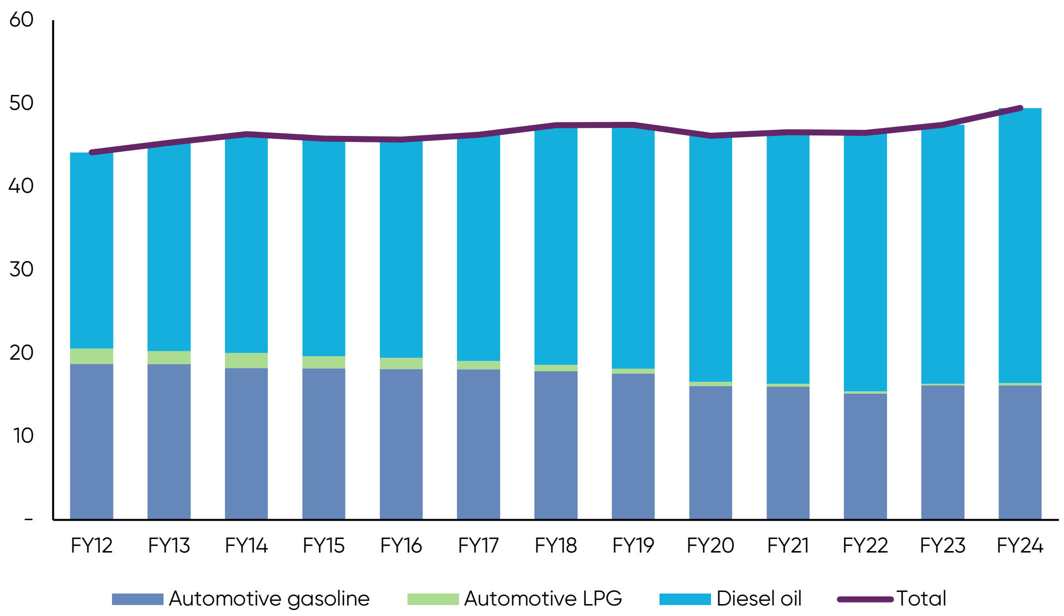
Source: AACS State of the Industry Reports.

Market dynamics

Solid fuel sales volumes and fuel-reliant vehicle sales

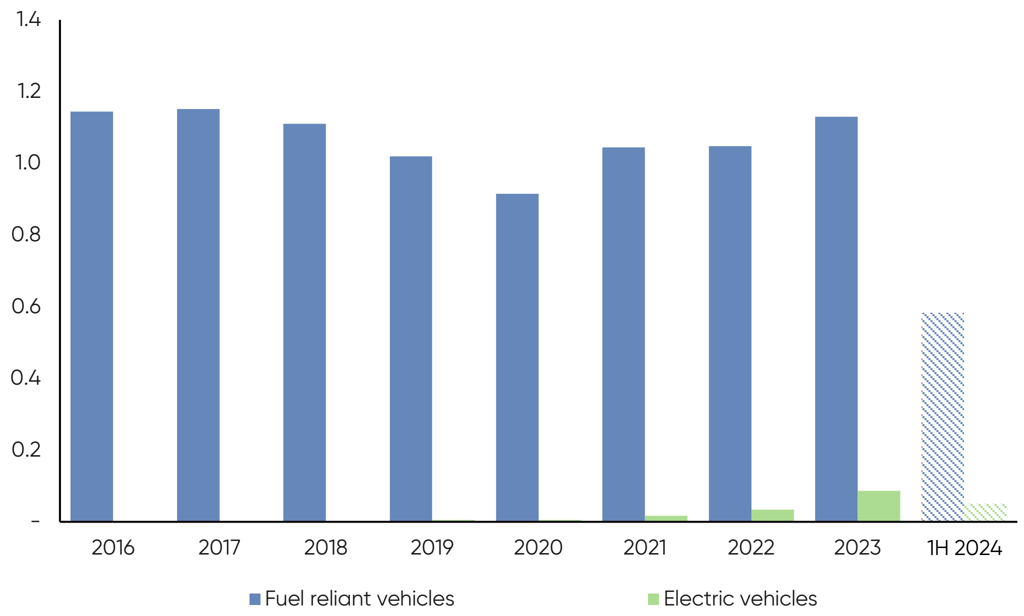
Fuel sales volumes grew 4.3% in the last 12 months

Sales volumes of petroleum products (megalitres, thousands)[1]



YTD fuel-reliant sales on track to exceed pre-Covid volumes

Australian car sales (m)

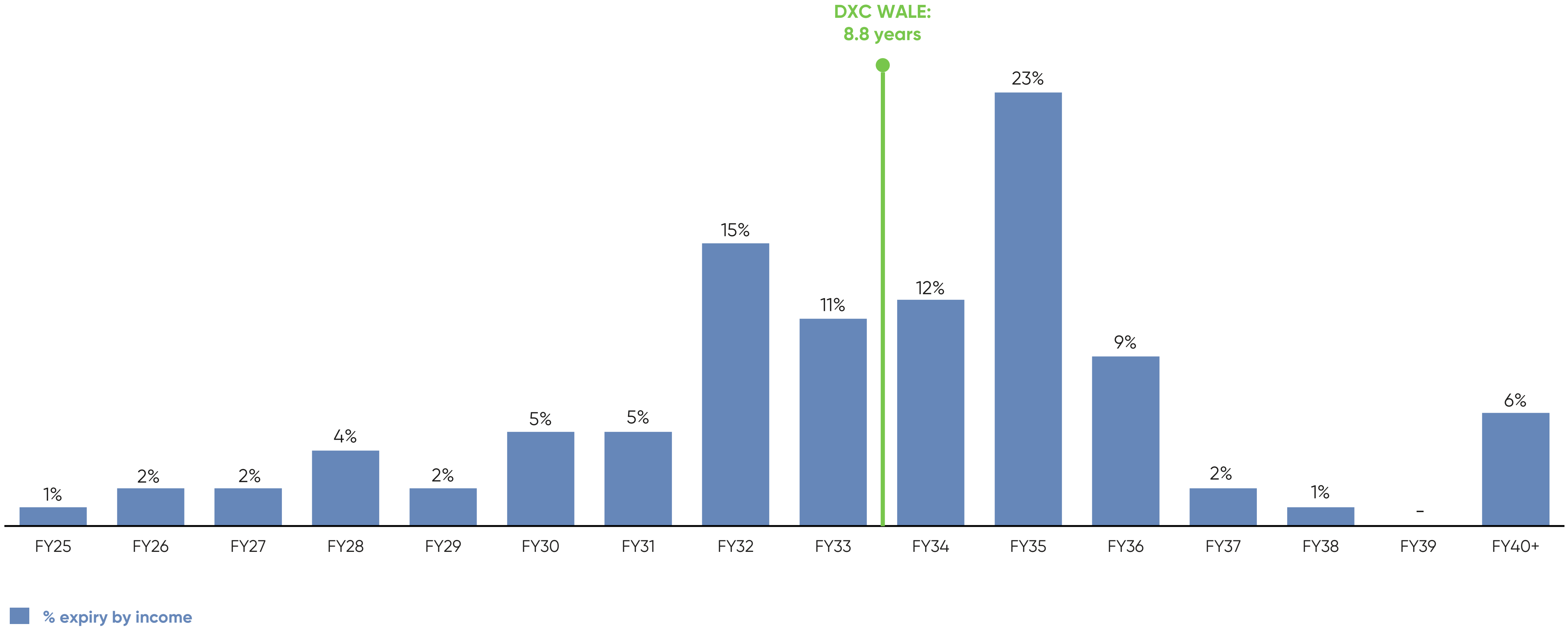


Source: ABS, Dept of Industry, Science, Energy and Resources, energy.gov.au, Australian petroleum statistics, Savills, Burgess Rawson, VFACTS, Dexus Research.

1. Premium diesel oil excluded from the chart due to limited data.

Lease expiry profile

Strong income visibility

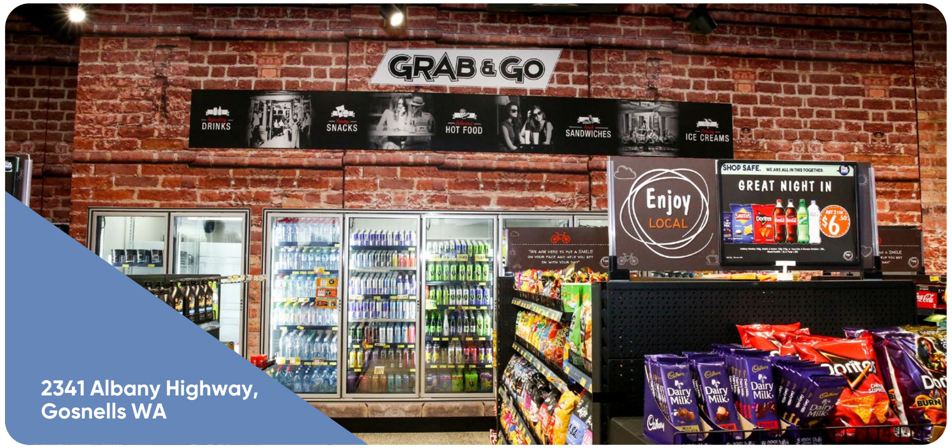


Transactions

$23.3 million of divestments settled in FY24 at 2.3% average discount to prior book value

Divestments	Property type	Settlement
656 Bruce Highway, Woree, QLD	Metro	18 August 2023
1182 Chapman Road, Glenfield, WA	Regional	31 August 2023
323 North East Road, Hampstead Gardens, SA	Metro	3 October 2023
264 Browns Plains Road, Browns Plains, QLD	Metro	19 October 2023
52 Aldershot Road, Lonsdale, SA	Metro	25 March 2024
Divestments exchanged post period end:		
25 Bolam Street, Garbutt, QLD	Metro	September 2024
77-79 Bowen Street, Rosslea, QLD	Metro	November 2024

342 Albany Highway
Orana, WA



2341 Albany Highway,
Gosnells WA

Consolidated profit & loss statement

$'000	FY24	FY23
Net property income[1]	48,350	51,914
Interest income	155	59
Total revenue	**48,505**	**51,973**
Management fees	(4,920)	(5,330)
Finance costs	(11,123)	(11,370)
Corporate costs	(954)	(1,329)
Total expenses	**(16,997)**	**(18,029)**
Net operating income	**31,508**	**33,944**
Fair value gain/(loss) on derivatives	(4,440)	(1,041)
Fair value gain/(loss) on investment properties	(23,661)	(41,283)
Net profit/(loss) after tax	**3,407**	**(8,380)**

1. Includes straight lining of rental income.

FFO reconciliation

$'000	FY24	FY23
Statutory net profit / (loss) after tax for the period	3,407	(8,380)
Adjusted for:		
Net fair value (gain) / loss on investment properties	23,661	41,283
Net fair value (gain) / loss on derivatives	4,440	1,041
Incentive amortisation and rent straight-line	(3,343)	(4,618)
Debt modification	564	734
Rental guarantees, coupon income and other	145	(310)
FFO	**28,874**	**29,750**
Distribution declared	28,874	29,755
Weighted securities on issue ('000)	137,757	137,757
Payout ratio (Distribution per security / FFO per security)	100.0%	100.0%
Distribution per security (cents per security)	21.0	21.6
FFO (cents per security)	21.0	21.6

Consolidated balance sheet

$'000	30 Jun 2024	30 Jun 2023
Cash and cash equivalents	1,918	5,454
Investment properties	740,680	781,220
Other assets	11,260	16,189
Total assets	**753,858**	**802,863**
Borrowings	(243,204)	(263,420)
Provisions	(9,113)	(9,796)
Other liabilities	(10,625)	(13,264)
Total liabilities	**(262,942)**	**(286,480)**
Net assets	**490,916**	**516,383**
Stapled securities on issue ('000)	137,757	137,757
NTA per security ($)	3.56	3.75

Important information

dexus