Dexus (ASX: DXS)

ASX release

19 August 2020

2020 Annual results – Positioning for the recovery

Dexus today announced that it had achieved Adjusted Funds From Operations (AFFO)[1] and a distribution of 50.3 cents per security for FY20, while advising its intention to deliver a distribution in line with free cash flow in FY21.

Highlights

- **Net profit after tax** of $983.0 million, down 23.3% primarily due to net revaluation gains of investment properties being lower than those recognised in FY19
- **AFFO and Distribution** of 50.3 cents per security, in line with FY19 despite COVID-19 impacts
- **Rent collections** for the Dexus portfolio were strong at 98% for FY20
- **Return on Contributed Equity** (ROCE)[2] of 9.0%
- **Gearing** (look-through)[3] remains conservative at 24.3%
- $1.6 billion of **cash and undrawn debt facilities**
- **High occupancy**[4] of 96.5% for the Dexus office portfolio and 95.6% for the Dexus industrial portfolio
- **Outperformance of both the Dexus office and industrial portfolios** relative to their relevant MSCI/PCA benchmarks[5] over one, three and five years to 31 March 2020
- **All funds performing** with Dexus Wholesale Property Fund (DWPF) continuing to outperform its benchmark across all time periods and Healthcare Wholesale Property Fund (HWPF) achieving a one-year return of 10.9%.
- **Increased group industrial exposure** to $5 billion[6] while expanding the existing relationship with GIC through their acquisition of an additional 24% interest in the Dexus Australian Logistics Trust (DALT) and the establishment of a new Joint Venture (JV) to acquire a 50% interest in Rialto Towers, 525 Collins Street, Melbourne
- Raised circa $955 million of **equity for new and existing unlisted funds**
- **Completed $1.1 billion of developments** across the group including 240 St Georges Terrace, Perth, The Annex at 12 Creek Street, Brisbane and 80 Collins Street, Melbourne where significant leasing was achieved
- **Progressed planning for city-shaping projects** in the group's $10.6 billion development pipeline
- **Realised $35.3 million of trading profits** (net of tax) in FY20 while contracting future trading profits to be realised across FY21 and FY22
- Further improved **employee Net Promoter Score** to +61 and **customer Net Promoter Score** to +50
- **Achieved 2020 NABERS Energy and Water targets** of 1,000,000 square metres rated a minimum 5 star and 4 star respectively

Dexus Chief Executive Officer, Darren Steinberg said: "Our ability to act quickly and decisively on both opportunities and challenges has been a contributing factor to our continued success. Our response to the challenging operating environment caused by the onset of the COVID-19 pandemic, together with how we were placed going into the crisis, positions us well for the recovery.

Response to COVID-19

Darren Steinberg said: "In recent years we have actively undertaken initiatives to improve asset quality and portfolio diversification, while maintaining a strong balance sheet. Through transactions, developments and favourable asset valuations we achieved growth in funds under management, consistent with our focus on leadership in office and being a wholesale partner of choice. We increased the group's exposure to the industrial and healthcare property sectors alongside our third party capital partners, further diversifying our position across these growing sectors. We have also invested in property technology initiatives and enhanced our product offering, working proactively with our customers to provide workspace solutions that enable additional flexibility and a seamless experience.

"When the pandemic took hold in late March 2020, our number one priority was to ensure the health, safety and wellbeing of the people in our buildings. With government restrictions implemented across our key markets, we kept our buildings operational to enable business continuity for the essential services of our customers. We actively supported the viability of our small business customers most affected by the crisis through the provision of rent relief, consistent with the Code of Conduct. These actions have impacted our financial result for the year which, until the last quarter, was tracking ahead of expectations. In response to the uncertain environment, we implemented cost reduction initiatives and secured additional debt facilities. We also withdrew our FY20 guidance until there was further certainty on cash flow, and in early June 2020 announced revised guidance for a distribution consistent with FY19, which we have delivered on."

While these challenges adversely impacted the financial result and the Dexus security price, Dexus progressed its strategic objectives and delivered solid operational achievements for the year.

Financial result

Dexus's net profit after tax was $983.0 million, down 23.3% on the prior year. This movement was primarily driven by net revaluation gains of investment properties of $612.4 million, which were $160.7 million lower than FY19. These revaluation gains primarily drove the 38 cent or 3.6% increase in net tangible asset (NTA) backing per security to $10.86 at 30 June 2020.

Underlying Funds from Operations (FFO) per security of 63.5 cents, which excludes trading profits, grew by 1.0% despite the impact of rent relief provided, highlighting the contribution from the funds management business and non-recurring cost reduction measures.

AFFO and distribution per security of 50.3 cents, was consistent with the prior year and in line with revised guidance provided on 1 June 2020, with the distribution payout ratio remaining in line with free cash flow in accordance with Dexus's distribution policy. The distribution for the six months ended 30 June 2020 of 23.3 cents per security will be paid to Dexus Security holders on Friday, 28 August 2020.

Rent collections for the Dexus portfolio were strong at 98% in FY20, with 92% collected in the fourth quarter of FY20.

Dexus achieved a ROCE[2] for FY20 of 9.0% driven largely by AFFO and revaluation gains from completed developments at 240 St Georges Terrace, Perth and the city retail component of 175 Pitt Street, Sydney.

Dexus continued to maintain a strong and conservative balance sheet with gearing (look-through)[3] at 24.3%, well below the target range of 30-40%, and $1.6 billion of cash and undrawn debt facilities.

Chief Financial Officer, Alison Harrop said: "We have remained focused on preserving capital while selectively investing in assets with solid fundamentals and divesting non-core or lower returning assets. We enhanced our financial position by sourcing $1.85 billion of debt, including the issue of $700 million of 10 and 12-year Medium-Term Notes, which increased our debt duration to 6.9 years and further diversified our funding sources. In this uncertain environment, we remain focused on maintaining the strength of our balance sheet."

Dexus has manageable debt expiries in late FY21 and limited development commitments of circa $180 million remaining to spend until the end of FY22. Dexus remains within all of its debt covenant limits and continues to retain its credit ratings of A-/A3 from S&P and Moody's respectively.

Property portfolio

Dexus Office Portfolio

Key metrics	30 June 2020	30 June 2019
Occupancy by income	96.5%	98.0%
Weighted average lease expiry (by income)	4.2 years	4.4 years
Average incentives[7]	17.1%	13.4%
Weighted average cap rate	4.97%	5.15%

During the year, Dexus leased 88,467 square metres[8] of office space across 207 transactions as well as 26,403 square metres of space across office developments, locking in future income streams.

Executive General Manager, Office, Kevin George said: "Our office portfolio was performing well leading into the crisis with high occupancy and significant leasing success, including our leasing focus at 80 Collins Street which achieved record rents and set new benchmarks for the Melbourne CBD."

In the current environment, office leasing enquiry levels have fallen, and inspection rates have slowed however occupancy has remained high at 96.5%. Lead indicators point to a period of uncertainty in the Australian office market, with demand across the major CBD markets likely to be patchy in the short term. In times of uncertainty, high-quality and well-leased assets can be expected to hold their value better than lower quality assets due to their appeal to both occupants and purchasers as well as their relative scarcity. At 30 June 2020, Prime grade[9] buildings comprised 94% of Dexus's office portfolio.

Office portfolio like-for-like income growth[10] was +2.4% (FY19: +3.4%), impacted by rent relief measures and a provision for expected credit losses. The Dexus office portfolio outperformed its benchmark over the one, three and five-year time periods to 31 March 2020.

As Australia's largest owner and manager of office buildings, Dexus has taken a leadership role in the operational aspects of assisting Australian businesses to return back to their offices in a safe manner and consistent with government guidelines. This has involved working with the authorities on lift capacities and end-of-trip facilities, as well as regular customer communications and surveys.

Kevin George said: "Developing meaningful partnerships with our customers, local communities and suppliers has a valuable impact on the people in and around our buildings. Our customers are at the heart of what we do, and we invest time in understanding their needs and delivering solutions to help them thrive in their workspaces. Our team is focused on enhancing our customers' experience as shown through the annual customer survey which returned a high customer Net Promoter Score of +50 (out of a possible range of -100 to +100), an increase from +46 in FY19, reflecting the strength of our relationships.

"We leveraged our workplace consulting business, Six Ideas by Dexus, to gain insights into the future of workspace. The COVID-19 pandemic has accelerated the flexible working trend as well as some of the long-term structural trends, like technology, that have underpinned our workspace strategy. We invest time in understanding our customers' needs to drive innovation, collaboration and workplace culture. This has resulted in enhancements to our customer offering over the years, from fitted suites to Dexus Place and SuiteX."

Dexus Industrial Portfolio

Key metrics	30 June 2020	30 June 2019
Occupancy by income	95.6%	97.0%
Weighted average lease expiry (by income)	4.1 years	4.7 years
Average incentives	13.4%	11.7%
Weighted average cap rate	5.66%	5.92%

Dexus manages a growing, high-quality $5 billion[6] group industrial portfolio, $2.2 billion of which sits in the Dexus portfolio. During the year, Dexus leased 181,472 square metres[8] of industrial space across 95 transactions, with the portfolio continuing to benefit from an uptick in logistics and e-commerce demand with non-discretionary and online retail sectors experiencing growth during the crisis.

Portfolio occupancy remains high at 95.6%, however was lower than FY19 at 97.0% primarily due to vacancy at Axxess Corporate Park. Industrial portfolio like-for-like income growth[11] was -2.1% (FY19: +2.5%) impacted by expiries at Axxess Corporate Park in addition to rent relief measures and a provision for expected credit losses. The Dexus industrial portfolio outperformed its benchmark over the one, three and five-year time periods to 31 March 2020.

The weighted average capitalisation rate across the total property portfolio tightened 21 basis points over the year to 5.05%. The weighted average capitalisation rate of the Dexus office portfolio tightened 18 basis points from 5.15% at 30 June 2019 to 4.97% at 30 June 2020 and for the Dexus industrial portfolio tightened 26 basis points from 5.92% at 30 June 2019 to 5.66% at 30 June 2020.

Funds Management

Dexus manages $15.5 billion of funds on behalf of 77 third party clients.

The funds platform raised circa $955 million of equity for new and existing funds, including DWPF which raised circa $240 million from existing investors to fund its future development pipeline. DWPF continues to outperform its benchmark over one, three, five, seven and ten years and HWPF continued to deliver strong performance, achieving a one-year return of 10.9%. All partnerships have performed well, exceeding their return objectives for the year.

Executive General Manager, Funds Management, Deborah Coakley said: "We remain a real estate partner of choice across the Australian office, industrial, retail and healthcare sectors and we continue to attract significant interest from domestic and international capital partners seeking to invest in Australian property. In the current environment we are focused on delivering continued superior performance and navigating the unanticipated market conditions for our third party capital partners, while accelerating opportunities to expand our funds platform, including the launch of an unlisted opportunity fund series in FY21."

During the year, GIC acquired an additional 24% interest in DALT, bringing its total share of the partnership to 49%, and entered into a new commercial JV with Dexus that acquired 50% of Rialto Towers in Melbourne. GIC holds a 90% share in the JV and Dexus holds the remaining 10%. Dexus is the investment manager of the JV and property manager of the entire Rialto Towers complex.

HWPF welcomed two new investors, completed the development of the new Calvary Adelaide Hospital, and acquired the North Shore Health Hub, Stage 1 currently under development at 12 Frederick Street, St Leonards. Post 30 June 2020, HWPF acquired the College Junction building in Clayfield, Brisbane, a modern healthcare facility that accommodates Qscan's head office, radiology clinic and other healthcare tenants.

Developments and transactions

During the year, Dexus completed $1.1 billion of developments across the group including its office development at 240 St Georges Terrace in Perth (96% committed), The Annex at 12 Creek Street, Brisbane (24% committed) and the office and retail component of 80 Collins Street (94% committed). In addition, three city retail projects, four specialised industrial facilities and HWPF's new Calvary Adelaide Hospital were also completed.

Dexus's group development pipeline now stands at a cost of $10.6 billion, of which $5.4 billion sits within the Dexus portfolio and $5.2 billion within third party funds. Dexus has only circa $180 million remaining to spend on its committed development projects until the end of FY22.

Construction continues at the $84 million Richlands project in Queensland and the $150 million South Granville project in NSW, both industrial development projects held within DALT. Construction also progressed at three other industrial properties, taking the total committed group industrial pipeline to over 270,000 square metres.

Chief Investment Officer, Ross Du Vernet said: "We've made significant progress across our city shaping developments at Central Place Sydney, 60 Collins Street in Melbourne and Waterfront Brisbane. In the current uncertain environment, our risk is reduced by the fact that these assets are currently income producing and the majority are owned in partnership with our third party capital partners, allowing us to progress planning to enhance the optionality of these developments."

Dexus had an active year of transactions, undertaking $1.2 billion of acquisitions and $1.0 billion of divestments across the group, recycling capital to strengthen Dexus's balance sheet and enhance flexibility. Dexus divested two assets at pricing in line with their prior book value, including Garema Court 140-180 City Walk, Canberra and 45 Clarence Street, Sydney which is subject to FIRB approval. In addition, Dexus made a number of smaller acquisitions and post 30 June 2020, settled on the divestment of Finlay Crisp Centre in Canberra.

Trading

Dexus realised $35.3 million of trading profits (net of tax) driven by the sale of the initial 25% of 201 Elizabeth Street in Sydney and progress at the North Shore Health Hub in St Leonards, currently under construction and sold to HWPF on a fund-through basis.

Post 30 June 2020, Dexus entered into agreements to sell a portfolio of six trading assets to DALT across two tranches and exercised the option to sell its remaining 25% interest in 201 Elizabeth Street. These transactions (including the North Shore Health Hub) are expected to contribute circa $85 million to pre-tax trading profits across FY21 and FY22 (in the event the options over the second tranche are exercised).

Environmental, Social and Governance (ESG) update

The impact of the Australian drought and bushfire crisis that dominated the summer of 2019-20 increased investor focus on the resilience of Dexus's properties to climate change. The launch of Dexus's *Towards Climate Resilience* report in June 2020 reinforces the group's approach to addressing climate change and enhancing resilience.

This year Dexus progressed its net zero emissions by 2030 goal by improving energy and water efficiency, delivering its 2020 NABERS Energy and Water targets, and expanding the adoption of renewable energy sources, including the rollout of solar projects across properties in Queensland and New South Wales.

Dexus gained global recognition for its commitment to its net zero goal, enhancing sustainability disclosure and its ongoing focus on portfolio resilience, achieving industry leadership in the Dow Jones Sustainability Indices (DJSI) and a position on the CDP Climate Change A List.

Dexus was again recognised by the Workplace Gender Equality Agency (WGEA) for its active commitment to and progress towards gender equality across its workplace – being awarded an Employer of Choice for Gender Equality (EOCGE) citation for 2019-20.

Dexus's highly engaged workforce is committed to delivering on its strategy, reflected in the high employee Net Promoter Score of +61. Throughout the COVID-19 pandemic Dexus employees have played an instrumental role in ensuring the safety of customers, contractors and the community across the group property portfolios. Dexus's ongoing focus on safety is measured by independent external safety audits across its corporate and management workspaces, and this year Dexus achieved an average score of 100%.

Summary and outlook

Darren Steinberg said: "Dexus is well positioned, with a track record of delivering on strategy, a stable and experienced management team, a quality property portfolio with a diversified customer base, and a strong balance sheet.

"In recent years we have demonstrated our ability to capitalise on opportunities while also preparing for periods of uncertainty. We have improved our portfolio composition through the acquisition of quality properties with solid fundamentals to drive long-term returns, while taking advantage of the good years to recycle properties in non-core locations.

"Our substantial city-shaping development pipeline comprises projects that will deliver long-term value beyond the recovery period, while our diversified funds management business is performing and continues to attract interest from new capital.

"Our team's knowledge, expertise and ability to innovate, combined with our investments in technology and workspace consulting, will help us position for the recovery.

"Office property is a long-term asset class and has shown its resilience to perform through the cycle. However, with Australia in a recession, we are preparing for subdued tenant demand and increased vacancy levels in our core office markets. In this environment we remain focused on maintaining high portfolio occupancy.

"We will also make decisions that set the group up to perform over the long term. We will selectively recycle assets, which may result in short-term earnings dilution but will enable us to reinvest into opportunities that we believe will drive stronger investor returns over the next decade.

"Our immediate priorities are summarised across five key areas: assisting Australian businesses in returning safely to their workplaces, optimising our property portfolio composition, accelerating opportunities to expand our funds management platform, continuing to work with our customers on the future of workspace, and progressing the city-shaping development pipeline."

Dexus intends to deliver a distribution in line with free cash flow in FY21. However, taking into account continued uncertainty, Dexus is not providing distribution per security guidance for the 12 months ended 30 June 2021.

FY20 Reporting Suite

This *ASX announcement* should be read in conjunction with the *2020 Annual Results presentation*, *2020 Annual Report, 2020 Financial Accounts, 2020 Sustainability Performance Reporting* and *2020 Property Synopsis*, released to the Australian Securities Exchange today and available on www.dexus.com

Investor conference call

Dexus will hold an investor conference call at 9.30am (AEST) today, Wednesday 19 August 2020, which will be webcast via the Dexus website (www.dexus.com) and available for download later today.

Authorised by the Board of Dexus Funds Management Limited

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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, certain transaction costs, one-off significant items, amortisation of intangible assets, movements in right of use assets and lease liabilities, rental guarantees and coupon income, less maintenance capital expenditure and lease incentives.

2 Return on Contributed Equity (ROCE) is calculated as AFFO plus the net tangible asset impact from completed developments divided by the weighted average contributed equity during the period.

3 Adjusted for cash and for debt in equity accounted investments. Proforma gearing includes proceeds and payments for transactions post 30 June 2020 that are expected to settle before 30 September 2020 including the divestment of Finlay Crisp Centre, Canberra, 201 Elizabeth Street, Sydney and 45 Clarence Street, Sydney (subject to FIRB approval), and the acquisition of Edward Street, Brisbane (Hermes), payment of Dexus's share of deferred settlement amounts for 80 Collins Street, Melbourne, the industrial property acquisitions at 37-39 Wentworth Street, Greenacre and the Ford Facility at Merrifield Business Park, Mickleham. All other transactions post 30 June 2020 are excluded. Look-through gearing at 30 June 2020 was 26.3%.

4 By income.

5 Period to 31 March 2020 which reflects the latest available MSCI Australian Quarterly Digest for Office Property benchmark and Industrial Property benchmark data.

6 Including acquisitions post 30 June 2020 (on completion value).

7 Excluding development leasing.

8 Including heads of agreement.

9 Stabilised assets only. Excludes development-affected assets and land.

10 Excluding rent relief and a provision for expected credit losses, effective like-for-like income growth was +4.7%.

11 Excluding one-off income in addition to rent relief and a provision for expected credit losses, effective like-for-like income growth was +0.1%.

About Dexus

Dexus is one of Australia's leading real estate groups, managing a high quality Australian property portfolio valued at $32.0 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 $16.5 billion of office and industrial properties. We manage a further $15.5 billion of office, retail, industrial and healthcare properties for third party clients. The group's $10.6 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.8 million square metres of office workspace across 51 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 29,000 investors from 21 countries. With 36 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

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