Dexus (ASX: DXS)

ASX release

17 August 2021

2021 Annual results – Delivering in a complex operating environment

Dexus today announced that it had achieved Adjusted Funds From Operations (AFFO)[1] and a distribution of 51.8 cents per security for FY21, up 3% on the prior year.

Highlights

- **Net profit after tax** of $1,138.4 million, up 17%
- **AFFO and distribution** of 51.8 cents per security, up 3% on the prior year
- **Return on Contributed Equity** (ROCE)[2] of 8.3%
- **Grew funds management business FUM to** $25.0 billion[3] through establishing a new office joint venture, securing approval for the merger of the circa $5.6 billion AMP Capital Diversified Property Fund (ADPF) with Dexus Wholesale Property Fund (DWPF) and entering into a proposal to acquire APN Property Group (APN)
- **Continued leadership in environmental, social and governance performance** with Dexus retaining its number one position for the global real estate industry on the Dow Jones Sustainability Index, and maintaining a leading position in GRESB and on the CDP Climate A list
- Achieved an **employee Net Promoter Score** of +43 and **customer Net Promoter Score**[4] of +46
- **Rent collections** for the Dexus portfolio were strong at 98.1% for FY21 and at 97.6% for the month of July 2021
- **Achieved high occupancy**[5] of 95.2% for the Dexus office portfolio and 97.7% for the Dexus industrial portfolio through strong leasing
- **Progressed planning for city-shaping projects** in the group's $14.6 billion development pipeline
- **Completed $881 million of developments** across the group including over $450 million of industrial developments, increasing the total group industrial portfolio to 2.6 million square metres
- **Gearing** (look-through)[6] remains conservative at 26.7%
- $1.1 billion of **cash and undrawn debt facilities**
- **Post 30 June 2021,** Dexus obtained approval to acquire APN adding $2.9 billion of FUM to the platform, acquired a 49% interest in Capital Square Tower 1 in Perth and entered into an agreement to fund, develop and invest in Atlassian's headquarters within the NSW State Government-led Tech Central precinct

Dexus Chief Executive Officer, Darren Steinberg said: "In a challenging operating environment, we maintained our focus on maximising property portfolio income and performance, while also supporting our small business customers impacted by the lockdowns and growing and diversifying the funds management business.

"We implemented major strategic initiatives, which strengthened the funds management business and positioned it for growth including securing approval for the merger of AMP Capital Diversified Property Fund with Dexus Wholesale Property Fund, simplifying the Dexus corporate structure, and entering into a proposal to acquire APN Property Group. We also took the opportunity to selectively recycle assets and make investments to support growth which involved $6.4 billion of healthcare, industrial and office transactions[9] across the group.

"Resilient independent asset valuations contributed to an increase in net tangible asset backing per security, reinforcing the quality of our property portfolio while increasing our confidence to allocate capital towards new investment opportunities that offered strong growth prospects."

Strategy

Darren Steinberg said: "Each year, our strategy review process stress tests our existing strategy with the objective of better positioning Dexus to capitalise on new opportunities and mitigate challenges. The pandemic has reinforced the importance of resilience and having a diversified business model and strategy that can deliver through the cycle.

"We have built a fully integrated real estate platform and are focused on better leveraging our cross-sector asset management and development expertise to drive more capital efficient returns for investors, while remaining true to our identity as a long-term investor in high quality Australian real estate.

"Throughout the year, we maintained our focus on the strategic initiatives of increasing the resilience of portfolio income streams, expanding and diversifying the funds management business and progressing the group development pipeline. These initiatives have now been incorporated into revised strategic objectives that will guide the next stage of our business evolution:

- **Generating sustainable income streams:** Investing in income streams that provide resilience through the cycle
- **Being identified as the real estate investment partner of choice**: Expanding and diversifying the funds management business

"We have invested in having a superior operating platform and will continue our focus on building a world-class business. The size of Dexus's balance sheet, deep access to pools of capital and an agile, solution-based culture are key enablers of our strategy, supported by our prudent approach to capital management and commitment to sustainability."

Financial result

Dexus's net profit after tax was $1,138.4 million, up 17% on the prior year. This movement was primarily driven by an increase in Dexus's share of net profits from equity accounted investments and a favourable net fair value movement of derivatives and foreign currency interest bearing liabilities, partly offset by lower fair value gains on owned investment properties.

The external independent valuations resulted in a total $584.0 million or circa 3.5% increase on prior book values for the 12 months to 30 June 2021, with a stronger uplift achieved in the second half of the year. These revaluation gains primarily drove the 56 cent or 5.1% increase in net tangible asset (NTA) backing per security during the year to $11.42 at 30 June 2021.

Chief Financial Officer, Alison Harrop said: "Despite the ongoing challenges presented by the pandemic and the provision of rent relief to impacted customers, we delivered 3% growth in AFFO and distribution per security. This result is particularly pleasing given the initial expectation for a distribution consistent with FY20, with growth achieved predominantly through better-than-expected outcomes across the property portfolio, as well as delayed settlements of asset sales and other initiatives."

Operationally, Underlying Funds From Operations (excluding trading profits) of $666.6 million was 4.1% lower than the prior year, impacted by divestments and continued impacts of COVID-19 across the property portfolio and management business, partly offset by income from recently completed developments. Despite the reduction in Underlying Funds From Operations, AFFO of $561.7 million was 2.0% higher than the prior year, driven by trading profits of $50.4 million (net of tax) which were $15.1 million higher than the prior year, as well as maintenance capex and incentives which were $24.4 million lower than the prior year.

On a per security basis, AFFO and distributions per security were 51.8 cents, 3% higher than the prior year, and the distribution payout ratio remained in line with free cash flow in accordance with Dexus's distribution policy. The distribution for the six months ended 30 June 2021 of 23.0 cents per security will be paid to Dexus Security holders on Monday, 30 August 2021.

Rent collections for the Dexus office and industrial portfolio were strong at 98.1% in FY21, and at 97.6% for the month of July 2021.

Dexus achieved a ROCE[2] for FY21 of 8.3% driven largely by AFFO and revaluation gains from completed developments at 180 Flinders Street, Melbourne and 47 Momentum Way, Ravenhall.

Dexus continued to maintain a strong and conservative balance sheet with gearing (look-through)[6] of 26.7% remaining below the target range of 30-40%, and $1.1 billion of cash and undrawn debt facilities.

In the 12 months to 30 June 2021, 15,636,917 Dexus securities were acquired on market at pricing ranging from $8.42-$9.40, resulting in 1,075,565,246 securities on issue at the end of the financial year.

The proposal to simplify Dexus's corporate structure was also approved by Security holders during the year and implemented in July 2021, providing Dexus with greater flexibility in meeting the investment demand from investors for real estate assets, while also providing opportunities to expand the funds management business. The simplified structure also results in increased reporting and administrative efficiencies and potential efficiencies for Security holders.

Dexus has manageable debt expiries over the next 12 months and remains within all of its debt covenant limits, retaining its credit ratings of A-/A3 from S&P and Moody's respectively.

Funds Management

Dexus manages $25.0 billion[3] of funds across its diversified funds management business, which includes 20 vehicles. Consistent with Dexus's strategic focus on expanding and diversifying the funds management business, Dexus progressed several initiatives including:

- Securing approval for the merger of Dexus Wholesale Property Fund and AMP Capital Diversified Property Fund, establishing a pathway to create an enhanced investment proposition for both sets of unitholders
- Establishing the Mercatus Dexus Australia Partnership (MDAP) joint venture with Mercatus Co-operative Limited. MDAP acquired a 33.33% interest in 1 Bligh Street, Sydney for $375 million[7] in which Mercatus holds a 90% share in MDAP with Dexus holding the remaining 10%
- Growing the scale of Dexus Healthcare Property Fund (DHPF), acquiring the Australian Bragg Centre in Adelaide (in 50/50 co-ownership with Dexus) for $446 million, alongside four other healthcare property acquisitions and completion of the fund-through development of North Shore Health Hub, in St Leonards, NSW
- Establishing the Dexus Real Estate Partnership 1, the first in a planned series of closed end opportunity funds

In July 2021, APN securityholders voted in favour of Dexus's proposal to acquire all of the stapled securities in APN for an all-cash consideration of 91.5 cents per security. The transaction increases Dexus's suite of funds on offer outside of wholesale funds into listed REITs, real estate securities funds and unlisted direct property funds. The transaction also expands Dexus's investor network to include retail and high net worth capital.

Executive General Manager, Funds Management, Deborah Coakley said: "We are pleased to have progressed two large scale strategic initiatives during the year, accelerating the diversification of our funds platform. Our continued investment in building relationships with existing and prospective third party capital partners, combined with our commitment to delivering performance and meaningful ESG outcomes, enhance our prospects for attracting further capital."

The funds platform raised circa $1.1 billion of equity across two new funds as well as within DWPF and DHPF.

All funds and partnerships have performed well despite the market conditions with DWPF continuing to outperform its benchmark over three, five, seven and ten years. DHPF delivered a strong one-year return of 18.1%.

Following the approval of the merger of DWPF and ADPF by the respective unitholder bases, circa $5.6 billion of new assets have been added to Dexus's platform, with some assets to be progressively sold down over approximately the next 18 months to provide redeeming ADPF unitholders with liquidity. This transaction provides DWPF unitholders with access to a high-quality portfolio of assets, greater diversification and introduces new investors to the platform.

The fundraising for the Dexus Real Estate Partnership 1 continues to progress, with the first close being finalised and further closes anticipated over the next 12 months. Additionally, a pipeline of potential investment opportunities has been identified.

Environmental, Social and Governance (ESG) update

From an environmental perspective, Dexus continued to manage its properties for carbon emissions and energy consumption, this year achieving 55% and 52% reductions respectively against the 2008 baseline. Dexus also progressed its transition to renewable energy, securing new electricity supply agreements in Queensland and Victoria. This forms part of a transition to 100% renewable electricity across the group-managed portfolio and plays a key role in reducing operational emissions. Leveraging this, Dexus has brought forward its target to achieve net zero emissions to 30 June 2022, advancing its original 2030 goal by eight years.

Dexus's engaged workforce is committed to delivering on its strategy and purpose of 'creating spaces where people thrive', reflected in the high employee Net Promoter Score of +43. Throughout the 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 building management workspaces and Dexus Place workspaces, and this year Dexus achieved a score of 100%.

During the year we established major community partnerships with the Black Dog Institute and Planet Ark which complement the Dexus Sustainability Approach. Dexus will collaborate with these organisations to maximise its social impact in the communities in which it operates.

The group's ESG performance continues to be acknowledged, with Dexus recognised as a global leader across several benchmarks, including being recognised as the Global Sector Leader for Listed Entities for the Dexus Office Trust by the Global Real Estate Sustainability Benchmark (GRESB), maintaining its position on the CDP Climate A List, and for the second consecutive year achieving the number 1 ranking for the real estate industry in the Dow Jones Sustainability Indices (DJSI).

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Property portfolio

Dexus Office Portfolio

Dexus manages a high-quality $26.0 billion group office portfolio, $14.0 billion of which sits in the Dexus portfolio.

Key metrics	30 June 2021	30 June 2020
Occupancy by income	95.2%	96.5%
Weighted average lease expiry (by income)	4.6 years	4.2 years
Average incentives	24.9%	17.1%
Weighted average cap rate	4.91%	4.97%

During the year, Dexus leased 184,029 square metres[8] of office space across 339 transactions as well as 11,068 square metres of space across office developments, locking in future income streams.

Office portfolio occupancy reduced to 95.2% driven by Melbourne properties where leasing has been impacted by extended lockdowns, which offset occupancy increases at 25 Martin Place (previously known as MLC Centre), Australia Square and 60 Castlereagh Street in Sydney.

Executive General Manager, Office, Kevin George said: “We are encouraged by the increase in enquiry levels, particularly from smaller customers in Sydney and Melbourne, which translated into leasing achievements during the year.

“From our survey and conversations with our customers, it’s clear that workplace flexibility is here to stay, but to different degrees depending on the organisation. Our business is well placed to accommodate workplace flexibility as it relates to physical spaces through our flexible product offering.”

“Customer conversations around the future of work have reinforced the importance of well-located high quality office space located in key CBD locations which will continue to attract talented workforces and remain leading work and entertainment destinations. 80 Collins Street, Melbourne and 25 Martin Place, Sydney are key examples of this.

“Activity in the portfolio has provided us with confidence that office markets will continue to improve in the year ahead, including a number of examples of organisations centralising into CBDs from a diverse range of industries.”

Face rents remain largely unchanged in the core CBD markets, however effective rents have come under pressure as incentives have increased. There is potential for incentives to decline into early CY22 in Sydney and Premium grade Melbourne assets, albeit the latest lockdowns could slow the rate of improvement.

Office portfolio effective like-for-like income growth was +2.3% (FY20: +4.7%), excluding the impact of rent relief measures and provisions for expected credit losses (including these impacts FY21: +0.9% and FY20 +2.4%). The Dexus office portfolio delivered a one-year return of 5.7% at 30 June 2021 and outperformed its benchmark over the five-year time period to 31 March 2021.

Kevin George said: “Our team’s ongoing focus on enhancing our customers’ experience and the strength of our relationships is evidenced in the annual customer survey which returned a high office customer Net Promoter Score of +49 (out of a possible range of -100 to +100).

“While the current lockdowns have injected an element of uncertainty into the outlook for FY22, there are reasons to be positive about the prospects for real estate. At this stage, the lockdowns appear likely to interrupt but not derail the broader economic recovery, and much depends on their duration. The economy has been tracking relatively well to date with employment growing solidly, and the vaccine rollout over the next six months should help maintain momentum. In addition, investment demand for quality real estate is likely to remain supported by low interest rates.”

Dexus Industrial Portfolio

Dexus manages a growing, high-quality $7.8 billion group industrial portfolio, $3.0 billion of which sits in the Dexus portfolio.

Key metrics	**30 June 2021**	**30 June 2020**
Occupancy by income	97.7%	95.6%
Weighted average lease expiry (by income)	4.4 years	4.1 years
Average incentives	19.1%	13.4%
Weighted average cap rate	4.92%	5.66%

During the year, Dexus leased 445,428 square metres[8] of industrial space across 116 transactions. Portfolio occupancy increased by more than two percentage points to a three-year high of 97.7%, driven by successful leasing at Axxess Corporate Park.

Executive General Manager, Industrial, Retail and Healthcare Stewart Hutcheon said: “We had an exceptional year of leasing activity which drove up industrial portfolio occupancy, improved our weighted average lease expiry by income and increased committed space at key developments.

“Economic tailwinds from government stimulus are feeding demand from ecommerce, retail, essential services, pharmaceuticals and infrastructure customers, with these sectors requiring more space to accommodate growth.”

Industrial portfolio effective like-for-like income growth was +3.7% (FY20: +0.1%) excluding the impact of rent relief measures and provisions for expected credit losses (including these impacts: FY21 +4.5% and FY20 -2.1%). The Dexus industrial portfolio delivered a very strong one-year return of 23.5% to 30 June 2021 and outperformed its benchmark over the three and five-year time periods to 31 March 2021.

Developments

Dexus’s group development pipeline now stands at a cost of $14.6 billion, of which $8.1 billion sits within the Dexus portfolio and $6.5 billion within third party funds. In addition, we have identified a further $1.6 billion opportunities across the group from recent platform initiatives.

Dexus has circa $350 million remaining to spend on its committed development projects until the end of FY23, including its direct 50% interest in the Australian Bragg Centre.

Chief Investment Officer, Ross Du Vernet said: “We had a successful year, completing over $880 million of developments including $450 million of industrial completions which increased the size of our group industrial portfolio to 2.6 million square metres. Our development pipeline increased to $14.6 billion post the addition of Atlassian’s Sydney headquarters, a new city shaping project. Outside of city shaping projects across Eastern seaboard CBD markets, the remainder of our development pipeline is well diversified across industrial, healthcare and office sectors.”

During the year, development projects at 180 Flinders Street and the 80 Collins Street (hotel component) in Melbourne were completed, as well as 47 Momentum Way in Ravenhall, 9 Custom Place in Truganina and the North Shore Health Hub in St Leonards.

Dexus also made further progress across the city shaping pipeline, receiving DA approval for Waterfront Brisbane and progressing through Stage 3 of the USP at Central Place Sydney. Dexus has the flexibility to activate these projects at the right time, subject to a certain level of tenant pre-commitment.

In the current environment, Dexus has reduced risk relating to the uncommitted city shaping developments because the existing assets on these sites are currently income producing and the majority are owned in partnership with third party capital partners, enabling Dexus to progress planning and enhance the optionality of these projects.

On completion of the group development pipeline, the group's industrial portfolio would grow to $9.4 billion across 3.4 million square metres.

Transactions and trading

Dexus had an active year of transactions, being involved in $6.4 billion[9] of property acquisitions and divestments across the group.

In December 2020, Dexus settled on the sale of its 100% interest in 45 Clarence Street, Sydney realising $530 million. Dexus also entered into agreements to sell a 100% interest in 60 Miller Street, North Sydney and a 50% interest in Grosvenor Place, Sydney (in which Dexus holds a 37.5% interest through its 25% direct interest and the Dexus Office Partnership’s 25% interest). 60 Miller Street, North Sydney settled on 3 August 2021 and Grosvenor Place is expected to settle in the first half of FY22.

Dexus Chief Investment Officer, Ross Du Vernet said: ‘‘We transacted $6.4 billion properties outside of the strategic initiatives, redeploying capital into higher returning opportunities. These transactions included 18 industrial acquisitions undertaken largely alongside third party capital. We also undertook five healthcare acquisitions, while establishing a new healthcare relationship with Australian Unity Healthcare Property Trust.

“We delivered more than $50 million in (post tax) trading profits across four projects and we identified three new opportunities within our existing portfolio to replenish the trading pipeline, with the potential to contribute to trading profits in future years.”

Dexus realised $50.4 million (post tax) of trading profits through:

- Exercising the option to sell its remaining 25% interest in 201 Elizabeth Street, Sydney which settled in August 2020
- Entering into agreements to sell a portfolio of six industrial assets (Truganina VIC and Lakes Business Park South, Botany NSW) to the Dexus Australian Logistics Trust (DALT) across two tranches, with the first tranche settling in October and December 2020 respectively
- Completing the North Shore Health Hub development in March 2021

In addition, Dexus settled on the sale of 436-484 Victoria Road, Gladesville on 9 August 2021 and entered into a put and call option arrangement on 13 August 2021 to sell a recently acquired trading asset at 22 Business Park Drive, Ravenhall. For FY22 Dexus has already secured trading profits of $25-$30 million (pre-tax) relating to 436 - 484 Victoria Road, Gladesville and the second tranche of the portfolio of six industrial assets sold to DALT, as well as 22 Business Park Drive, Ravenhall.

Summary and outlook

Darren Steinberg said: “In the face of an uncertain operating environment, we are well positioned to continue to deliver on our strategy, with our growing funds management business, quality property portfolio and strong balance sheet.

“The continuing cycle of lockdowns will have an impact on business and consumer confidence, and we are prepared for this environment. The momentum experienced in our CBDs has been interrupted due to the recent lockdowns, but we expect activity to return to previous levels as the restrictions are eased. We have confidence in the future of cities and our ability to deliver sustained value for all our stakeholders over the long term.

“We have demonstrated our ability to capitalise on opportunities while also being able to address challenges. Recycling assets over the past year has enabled us to maintain the strength of our balance sheet while allocating capital towards new investment opportunities that offer strong growth prospects.

“Our ability to deliver long-term performance beyond the recovery is a function of our scale and capability across key real estate sectors, our funds management business which provides a capital efficient way to increase our exposure to growth sectors, and our substantial city-shaping development pipeline.

“In the year ahead, our strategic objectives of generating sustainable income streams and being identified as the real estate investment partner of choice will see us continue to implement active leasing strategies to maximise office portfolio cash flow generation. We will also invest in quality Australian real estate and developments, while leveraging the funds management and development businesses to drive an improved return on capital.”

Based on current expectations relating to COVID-19 impacts and barring unforeseen circumstances, Dexus expects distribution per security growth of not less than 2% for the 12 months ended 30 June 2022.

FY21 Results

This ASX announcement should be read in conjunction with the 2021 Annual Results presentation, 2021 Annual Report, 2021 Financial Accounts, 2021 Sustainability Report and 2021 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, Tuesday 17 August 2021, 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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About Dexus

Dexus (ASX: DXS) is one of Australia's leading fully integrated real estate groups, managing a high-quality Australian property portfolio valued at $42.5 billion. We believe that the strength and quality of our relationships will always be 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 $17.5 billion of office, industrial and healthcare properties, and investments. We manage a further $25.0 billion of office, retail, industrial and healthcare properties for third party clients. The group's $14.6 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. Sustainability is integrated across our business, and our sustainability approach is the lens we use to manage emerging ESG risks and opportunities for all our stakeholders. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange and is supported by more than 30,000 investors from 23 countries. With over 35 years of expertise in property investment, funds management, asset management and development, we have a proven track record in capital and risk management and delivering superior risk-adjusted returns for investors.
www.dexus.com

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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 and reversal of impairments, derivative and foreign exchange 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, non-FFO tax expenses, certain transaction costs, one-off significant items (including write-off of IFRIC SaaS customisation expenses), 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 year.

3 Prior to circa $2 billion of redemptions to existing ADPF unitholders and proforma for the acquisition of APN Property Group which was approved on 27 July 2021 as well as settlement of MDAP's 33.3% interest in 1 Bligh Street, Sydney which occurred on 8 July 2021.

4 Customer Net Promoter Score across both office and industrial portfolio.

5 By income.

6 Gearing adjusted for cash and debt in equity accounted investments and excluding the impact of the divestments of 60 Miller Street, North Sydney which settled on 3 August 2021 and Grosvenor Place in Sydney which is expected to settle in the first half of FY22. Look-through gearing at 30 June 2020 was 26.3%.

7 Reflecting the acquisition price for the 33.33% interest in 1 Bligh Street (of which Mercatus holds a 90% share and Dexus a 10% share) and excludes acquisition costs, other costs and purchase price adjustments.

8 Includes Heads of Agreement.

9 Includes acquisition of Capital Square Tower 1 at 98 Mounts Bay Road in Perth which occurred on 22 July 2021. Dexus paid $339 million for a 49% equity stake in the holding trust which owns the tower, which has been externally valued at $970 million as at 30 June 2021 and has $450 million of senior secured debt. A portion of Dexus's contribution will be utilised by the holding trust as a new receivable loan to the co-owner (Dexus's share is circa $77 million). Also includes post balance date industrial acquisitions of Kemps Creek and McPhee portfolio which are subject to put and call options, which if exercised, are expected to settle between FY22-FY23. Includes divestments of 60 Miller Street, North Sydney which settled on 3 August 2021, 22 Business Park Drive, Ravenhall which is expected to settle in September 2021, and Grosvenor Place in Sydney which is expected to settle in first half of FY22.