



Property for Industry Limited
Shed 24, Prince's Wharf,
147 Quay Street, Auckland
PO Box 1147, Shortland Street, Auckland

Phone: 09-303 9450
Fax: 09-303 9657
info@propertyforindustry.co.nz
www.propertyforindustry.co.nz

Chairman and Deputy Chairman's Address to the Property for Industry Annual Meeting at 11am on 22 June 2017

<< Slide 1: WELCOME >>

Good afternoon, my name is Peter Masfen and I am chairman of the board of directors of PFI.

It is my pleasure to welcome you to the twenty third Annual Meeting of PFI.

I would ask that if you have a cell phone with you today, please turn it off or on to silent mode.

As the required quorum of three shareholders is present, I'll now formally declare the meeting open.

<< Slide 2: AGENDA >>

The agenda for the meeting is up on the screen.

I will make a short presentation, discussing the performance of the business.

Then, Simon Woodhams, our General Manager, will provide an insight into the operation of the business.

At the end of these presentations there will then be an opportunity to ask questions or to make comments that specifically relate to these presentations or the financial statements and auditor's report.

Following the questions and comments, I will put the first three resolutions to the meeting which will need to be seconded. I will then give an opportunity for discussion, following which I will put the motion to the vote. Voting will be by poll.

Then, Anthony Beverley, Independent Director and Deputy Chairman, will make a presentation regarding the internalisation of the management of PFI, which will be followed by an opportunity to ask questions or to make comments that specifically relate to the internalisation of the management of PFI.

The fourth resolution will then be put to the meeting and will need to be seconded. There will then be an opportunity for discussion, following which the motion will be put to the vote, and again, voting will be by poll.

After the meeting, light refreshments will be served and this is also a chance for shareholders to mingle with directors and the management team.

Turning to introductions.

- First, **Craig Peirce**, Chief Financial Officer and Company Secretary.
- Next, **Simon Woodhams**, General Manager;
- Next, **Anthony Beverley**, who has been a long serving PFI director;
- Next, **Susan Peterson**, who joined the board in 2016;
- And finally, **Greg Reidy**, PFI's Managing Director.

We note that **Humphry Rolleston** cannot be with us today. Humphry has served on PFI's board since the company was listed on the stock exchange, and is up for re-election today.

I'd like to acknowledge **John Waller**, who passed away in September last year. John joined the board in 2013 as part of the merger with Direct Property Fund and made an outstanding contribution to this company.

We will now move on to the formal business of the meeting.

The notice of meeting, including the explanatory notes, was released to NZX on the 29th of May 2017 and mailed to shareholders on the 2nd of June 2017. The notice of meeting contained the business to be dealt with at this meeting.



<< Slide 3: BOARD AND MANAGEMENT TEAM ADDRESSES >>

Turning now to the board and management addresses.

As you'll know from your review of the Annual Report—and as you have come to expect—PFI performed extremely well in 2016. Operating revenue increased, operating expenses decreased, the value of the portfolio grew, and we achieved a record profit, enabling a distributable profit per share of 7.58 cents per share, up from 7.01 cents per share the year before.

As we did last year, let's look at the result in the context of the past five years. Given our commitment to consistent strong, stable shareholder returns, I think that wider view is much more helpful than looking at one year's result in isolation...

<< Slide 4: 2016 IN CONTEXT >>

Let's start with total assets. You can still see the step-change effect of the 2013 Direct Property Fund merger, but you can also see the steady growth since then and the further increase in 2016. It's that increase in asset value that's driven the top-line profit growth and over time we expect to see it flow through to operating revenue and distributable profit.

If you look at the line below—the number of properties—you'll see that the growth in asset value is largely a market effect, rather than from a bigger portfolio as such. Remember that of those 83 properties, 70 are in Auckland, and so we're benefitting from the strength of the Auckland property market. On the other hand, it's because of that market pressure on values that we didn't pursue any significant acquisitions in 2016. Rather, management focussed on extracting value from the existing portfolio. Simon is going to give you an insight into that shortly.

The next two rows Occupancy, and the Weighted Average Lease Term or WALT are like blood pressure, really: they are indicators of the health of the business. As you can see, that strong market has helped us maintain extremely good occupancy. WALT has eased back a bit. That's in part the impact of the Sistema acquisition— which Simon elaborate on later. These numbers show the real work that goes on



in the business, week in and week out, attracting and retaining quality tenants, on terms that are favourable to shareholders.

Let's look at Gearing next, because that is very important to this Board. Again, it's a health indicator; it's about managing risk, and as you can see, we are very prudent. The growth in asset values, and not having significant acquisitions, have reduced this further after the rights issue in 2015.

And now to the point of all that... strong, stable shareholder returns and I've picked two sets of data here: earnings per share and distributable profit per share...

Just to amplify the point I made a moment ago: one should lead to the other. The big lift in earnings per share this year is largely an outcome of the increased value of the portfolio, thanks to the strong property market. The effect of that on revenue and operating profit should follow over time, as management successfully lock that value increase into new leases with existing or new tenants.

It's how well we manage *that* side of the business that determines the profit we can distribute to shareholders. Distributable profit this year was \$2.8 million higher than last year and so distributable profit per share was up from just over seven cents to over seven-and-a-half cents. Clearly another strong return; continuing the trend consistently of strong returns, year after year.

Of course, you hear me say that often: consistently strong returns. So, I thought you might like to see this chart...

<< Slide 5: 10 YEAR SHAREHOLDER RETURN >>

To explain what you're looking at, the pale blue line is the indexed gross performance of the NZX50 over the past 10 years. The grey line is the indexed gross performance of the NZX listed property companies over the same period and the red line is PFI's indexed gross performance. As you can see, our returns to shareholders have been consistently outperforming the market.

These figures are for the past ten years and you are used to me talking about the performance of the company since inception. In the 22 years since PFI listed in 1994, our annual returns to shareholders have averaged 9.45% per annum. Here's a chart that tracks the company over time...



<< Slide 6: INVESTMENT PROPERTIES >>

As the indicator, we're using investment properties. You can see an extended period of steady growth through the early years, the impact on all property values of the financial crisis, and then the very substantial growth we've achieved in recent years with the current management team.

You can see the rights issue mentioned on here as one of our key events. The rights issue enabled the 2015 acquisition of the Sistema portfolio and I'm going to hand over to Simon in a moment who is going to update you on that.

But before I do I would like to take this opportunity to comment briefly on the proposed internalisation.

This initiative evolved from the Board's ongoing focus on ensuring PFI is a long term, sustainable and successful business.

Internalisation provides us with a number of benefits, in particular, complete control over the management of the company and a chance to remove the ever-green external agreement off the table, whilst retaining the excellent team which has driven our positive trajectory for the last six years.

Importantly we have been able to do this at fair price, which has been upheld by two separate independent advisers.

As said earlier, there will be an opportunity for you to hear more on this from Anthony later in the meeting, but for now I will hand over to Simon Woodhams, who will provide further insight into PFI's operations.

Thank you.

<< SIMON WOODHAMS PRESENTED SLIDES 7 – 17 >>

<< PETER CONTINUED >>



<< Slide 18: SHAREHOLDER QUESTIONS AND ANSWERS >>

There is now an opportunity for questions or comments on the annual meeting presentations or on the financial statements and auditor's report. As we will cover the internalisation later in the meeting, I would ask that you keep any questions in this regard for that time.

Should you wish to raise a question or comment, please make use of the microphones which are available. Please wait for a microphone and I will indicate when to proceed. Please let us know your name and whether you're a shareholder or a proxy holder and, if a proxy holder, the name of the shareholder you are representing.

<< Slide 19: FINANCIAL STATEMENTS >>

Thank you for your questions and comments. As there are no further questions on the financial statements and auditor's report, we will now consider the financial statements and auditor's report to have been received.

<< Slide 20: ORDINARY RESOLUTIONS >>

We will now move to the resolutions.

The company secretary advises that 425 shareholders, representing 175,221,032 shares or 38.7% of the company's capital, are represented by proxies.

Voting for the resolutions will be conducted by poll. For the purpose of the poll, I appoint the company's registrar, Computershare, to carry out the poll, with the company's auditors, PricewaterhouseCoopers, to act as scrutineers on behalf of the shareholders.

The procedure for the conduct of the poll will be as follows:

- Voting papers have been provided with the notice of meeting, pens, where required, will be distributed now;



- If you do not have a voting paper, please see a representative from Computershare who will print off a voting paper for you;
- The voting paper already has your name, or the name of the shareholding represented, and the number of voting shares pre-printed on the paper;
- Indicate your vote for, against or abstain, by placing a tick in the appropriate box;
- If you are here as a proxy for a shareholder who has not marked 'proxy discretion' on their proxy form, your vote will be automatically counted in accordance with the voting directions given by your appointer, but please sign the voting paper provided when you arrived at the meeting;
- Where you are a proxy holder and you have been granted a discretion on how to vote the resolution, please use the voting paper provided when you arrived at the meeting;
- After recording your vote, please remember to sign your voting paper, then place the voting paper in the boxes being passed down the aisle from where they will be collected by the auditor's and Computershare's staff.

Having collected the votes, they will be taken to a separate room for counting and, while that is in progress, we will continue with the business of the meeting. The results of the poll will be announced via NZX as soon as they are available.

Please note that the board recommends that you vote in favour of each of the resolutions.

<< Slide 21: ANNUAL MEETING RESOLUTIONS >>

The first two resolutions are in regards to director re-elections. No notice of nomination of any other person has been received.

The first resolution concerns the re-election of Humphry Rolleston.

In accordance with the company's constitution, Humphry retires by rotation and, being eligible, he has offered himself for re-election. The board supports his re-election.



As I mentioned earlier, Humphry cannot be with us today. However, he is well known to most of you, but for those who are unfamiliar with his background, Humphry has asked me to say a few words on his behalf.

Humphry joined the PFI board in in 1994 when the company listed. He is chairman of tourism operator ANZCRO New Zealand Limited and a director of NZX listed company Infratil Limited. He also owns the investment company Asset Management Limited which has significant interests in a number of private Australasian companies including Matrix Security Limited, Stray Limited, Spaceships Limited, Mercer Group Limited, Plant Miner Pty Limited and Media Metro NZ Limited.

Turning to the resolution: *“That Humphry Rolleston, who retires and is eligible for re-election, be re-elected as a director of the Company.”*

I would like to move this motion. Do I have a seconder?

Is there any discussion?

Please mark your voting papers for resolution 1.

Next, in accordance with the company’s constitution, Anthony Beverley retires by rotation. Anthony, being eligible, has offered himself for re-election. The board supports his re-election.

Anthony is well-known to many of you, and there is a profile of him – including his other directorships – in the notice of meeting.

I now invite Anthony to make a brief address on the relevant experience he brings to the role.

<< ANTHONY BEVERLEY SAID A FEW WORDS ON HIS OWN BEHALF >>

<< PETER CONTINUED >>

Thank you, Anthony.



The resolution is: *“That Anthony Beverley, who retires and is eligible for re-election, be re-elected as a director of the Company.”*

I would like to move this motion. Do I have a seconder?

Is there any discussion?

Please mark your voting papers for resolution 2.

Turning to the third resolution: *“That the directors are authorised to fix the fees and expenses of the auditors, PricewaterhouseCoopers.”*

I would like to move this motion. Do I have a seconder?

Is there any discussion?

Please mark your voting papers for resolution 3.

The next resolution concerns the internalisation of the management of PFI.

I now invite Anthony, who led the internalisation process for the independent directors, to speak on this topic.

<< ANTHONY BEVERLEY PRESENTED SLIDES 22 – 26 >>

<< Slide 22: INTERNALISATION AGREEMENT >>

Thank you, Peter.

Today’s resolution is the result of discussions over many months, between the Independent Directors and PFIM. Our priority and focus during the discussions and organisation of the internalisation was to ensure PFI gained control over its management and, if possible, to retain the current personnel who



have been an essential part of our success. The Internalisation proposal delivers these outcomes while also providing substantial benefits to our shareholders, including reduced expenses and consequently higher earnings per share.

The details of the arrangement have been outlined in the Explanatory Notes in the Notice of Meeting, which also included the Northington Partners' independent appraisal report. I hope you have had an opportunity to read these.

To give you a little bit of background, the existing management agreement is a very long standing one, in fact it was entered into around the time PFI was established in 1994. It is for a perpetual term and PFI has very limited rights to terminate it. PFI also has very limited control if a third party wished to negotiate to acquire the agreement from PFIM.

We now have an opportunity to take this agreement off the table and gain complete control over the management of the company. The way the internalisation has been structured ensures a seamless transition, with the retention of the existing high performance management team, and it will add financial value for our shareholders from both earnings and net present value perspectives.

All the terms of the agreement, including employment terms for the management team, remuneration and incentives, have been robustly negotiated to ensure value and long term benefit for our company.

<< Slide 23: INDEPENDENT APPRAISAL REPORT >>

A key feature of the proposal is a payment to PFIM of \$42 million. As we have received a binding ruling from the IRD that confirms that the payment is tax deductible, this equates to a post-tax cost to PFI of \$30.3 million.

There is an element of difficulty comparing the PFI management contract to other transactions in the market, due to the perpetual nature of the contract and the limited ability to remove PFIM as the manager.



It is also difficult to compare on a like for like basis with other companies, because of the significant variations in performance fee structures and terms relating to other fees across different organisations.

In negotiating the internalisation of management with PFIM, the Independent Directors sought extensive pricing and structuring advice and believe that, while the price multiple is in the upper half of the range of multiples observed in other internalisations, reflecting the features of the PFI management contract, the price is attractive for PFI, particularly on a post-tax basis. It is also well below the independent valuation and is earnings accretive for PFI.

In fact, Northington Partners as Independent Appraiser has assessed the Fair Market Value of the PFIM contract to the wider market at \$48 to \$56 million, and the value to PFI under an Internalisation at \$63 to \$78 million – significantly higher than the proposed purchase price.

<< Slide 24: INDEPENDENT APPRAISAL REPORT (CONT.) >>

Northington Partners identified a number of benefits for shareholders when coming to its conclusion that, taking all the key elements of the Proposed Internalisation into account, the consideration and terms and conditions are fair to the PFI shareholders not associated with PFIM.

In particular, Northington states that:

- Internalisation is expected to add between \$33 and \$48 million of value to PFI on a post-tax NPV basis.
- Post Internalisation, PFI will likely have the lowest management expense ratio in the listed property sector, of approximately 0.4%, compared to the sector average at 0.8%.
- The Proposed Internalisation is estimated to provide earnings accretion of approximately 6% per annum on a pro forma basis, enhancing distributable profits for PFI which should allow for higher future dividends.

<< Slide 25: SUPPORT OF INDEPENDENT DIRECTORS >>



The Independent Directors unanimously support the Internalisation and believe that it is in the best interests of shareholders.

This is an opportune time to bring the management inhouse, whilst retaining the existing proven management team.

We expect to realise significant cost savings, and we believe that Internalisation is of more benefit to shareholders and will be more accretive than buying property at this point in time.

Importantly, it removes the risk that the Management Agreement could be sold to another third party which does not have the same skills and experience as our current management team.

<< Slide 26: INTERNALISATION RESOLUTION >>

The resolution before us today is: *“That the shareholders ratify, confirm and approve, pursuant to an agreement between the Company and PFIM dated 31 March 2017, the:*

a. termination of the Management Agreement between the Company and PFIM; and

b. acquisition by the Company of the business of PFIM, for consideration totalling \$42,000,000, to be satisfied by way of additional borrowings, and that the Independent Directors be authorised to take all actions, do all things and execute all necessary documents and agreements necessary or considered by them to be expedient to give effect to such transactions.”

I would like to move this motion. Do I have a seconder?

Is there any discussion?

Please mark your voting papers for resolution 4.

I would now like to hand the meeting back to Peter.



<< PETER CONTINUED >>

<< Slide 27: GENERAL BUSINESS >>

Thank you, Anthony. We now come to the general business section of the meeting.

Should you wish to raise any matter that may be properly submitted to the annual meeting in accordance with the constitution, please raise your hand and wait for one of the microphones. I will indicate when to proceed.

That concludes the formal part of the meeting. I declare the meeting closed.

<< Slide 28: CLOSE OF MEETING & REFRESHMENTS >>

Thank you for your attendance and your continued support, please join us now for light refreshments and further conversation.

