

# PRESENTATIONS TO THE PROPERTY FOR INDUSTRY ANNUAL MEETING

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At 11.00am on Wednesday, 3 June 2020

<< Slide 1: WELCOME TO THE 2020 PFI ANNUAL MEETING >>

<< Anthony Beverley >>

Good morning, my name is Anthony Beverley and I am the Chairman of the Board of Directors of PFI.

Welcome to the twenty-sixth Annual Meeting of PFI. We have a quorum present, so let's get underway.

Given the restrictions on gatherings in place due to the COVID-19 pandemic, this meeting is a little different to our usual Annual Meeting, being our first ever virtual meeting, and we are sorry that we cannot meet with you all like we normally do.

In order for this virtual meeting to run smoothly, we will need to do some things a little differently, namely, questions and answers, and voting.

First, let's deal with the procedure around questions and answers: any shareholder or appointed proxy is eligible to ask questions. If you would like to ask a question, press the questions button on your computer, tablet or mobile, and then type and submit your question. It will then be sent to the Board for an answer. We will try to get to as many of the questions as possible, but not all questions may be able to be answered during the meeting. In this case, questions will be followed up after the meeting.

The second change is to how voting works. We will open the poll now, to give you plenty of time to vote. The ability to vote will appear on your screen, and from here, the resolution and voting choices will be displayed. To vote, simply select your voting choice from the options shown on screen. You can change your vote at any time up until when the poll is closed. Prior to the poll closing, simply select another voting choice to change your vote.

**<< Slide 2: AGENDA >>**

Here is the agenda.

I will start with a short presentation, and then our CEO, Simon Woodhams, will do likewise.

You will then have the opportunity to ask questions or to make comments about those presentations, or the financial statements and auditor's report.

Then, as you have seen in the notice of meeting, we have three resolutions we would like you to approve.

Following those resolutions, we will finish with a further opportunity for questions and answers when we get to general business.

**<< Slide 3: BOARD AND MANAGEMENT TEAM PRESENTATIONS >>**

**<< Slide 4: INTRODUCTIONS >>**

Despite the virtual nature of the meeting today, we have the Management Team and Board either in person here in Auckland, or on the line. Let me start by re-introducing them:

- **Simon Woodhams**, Chief Executive Officer;
- **Craig Peirce**, Chief Finance and Operating Officer;
- **David Thomson**, Independent Director;
- **Dean Bracewell**, Independent Director, who was appointed to the Board in November last year and is up for election by shareholders today;
- **Greg Reidy**, Non-Executive Director;
- **Susan Peterson**, Independent Director, and finally;
- **Humphry Rolleston**, Independent Director.

**<< Slide 5: HUMPHRY ROLLESTON>>**

Speaking of Humphry, we noted at last year's annual meeting, that Humphry had advised the Board that he wouldn't be seeking re-election this year and will therefore retire as a Director of PFI. In doing so Humphry is calling time on what can only be described as an incredibly successful 26 years with the Company.

Humphry has served on PFI's Board since July 1994, and later that year the Company was listed on the stock exchange. The June 1995 annual report records PFI as having 20 properties valued at \$74 million at that time. Since then, the portfolio has grown to 93 properties valued at around \$1.5 billion.

I know Humphry is extremely proud, not just of PFI's growth, but that this growth has always been focused on delivering strong, stable returns to shareholders. Since listing and Humphry's appointment to the Board, PFI has delivered an average annual return to shareholders of around 11%.

Humphry, I wondered if you might like to say a few words?

**<< Humphry Rolleston >>**

**<< Anthony Beverley >>**

Thank you, Humphry, and the Board and management team would like to acknowledge and thank Humphry for his outstanding contribution to the Company and to wish him the very best for the future.

**<< Slide 6: 2019 HIGHLIGHTS >>**

We turn now to the Board and Management Team presentations.

I am sure you will all be keen to hear more about how the COVID-19 pandemic is impacting PFI, and we will come to this in a moment, but before we do, I think it's important that we reflect on the key achievements in 2019, and to look at 2019, and the impact of the COVID-19 pandemic, in the context of PFI's 26 years of history.

Turning first to the key achievements in 2019...

Our team had another busy year working closely with our tenants: nearly 100,000 square metres, or 17% of the portfolio, was leased during the year to 24 tenants. In addition, rent reviews were completed on more than 100 leases, and those reviews delivered an average annual uplift of 4.6%.

At the same time, we made significant progress on our journey to becoming a "pure play" industrial listed property vehicle. Four Auckland industrial opportunities totalling \$106 million

were secured, and \$40 million of non-industrial divestments were contracted during the year. We also committed to, or completed, \$26 million of value-add initiatives.

These activities, combined with a strong market, generated record annual results. Profit after tax was \$176 million, and Adjusted Funds From Operations or AFFO earnings were up 4.4% to 7.79 cents per share. This allowed us to pay cash dividends of 7.60 cents per share, and importantly, those cash dividends were more than covered by AFFO earnings.

We also ended the year with a strong balance sheet. Net tangible assets rose 15.6% to 206 cents per share, and we refinanced \$300 million of bank facilities. Gearing was just 28.2% at the end of the year.

2019 was also a year of significant share price performance. PFI's total returns were almost 40%, in excess of both the average for the Company's peer group, and also the NZX50. And whilst we are very pleased with that result, we think it is best considered in the context of the Company's history, and the performance since the end of last year.

#### << Slide 7: CONTEXT >>

The graph on the screen now tracks PFI's total returns – that's dividends received and the change in share price – since listing in December 1994, a moment I am sure Humphry remembers well.

Another way to express the measures presented in this graph is the average annual return to shareholders since inception, which, as noted on this slide, are around 11%.

Both this graph, and that number, highlight three things.

First, it highlights that 2019 was a very good year for PFI's share price, as mentioned earlier, total returns were almost 40%. But we must keep in mind that this is an unusually high return for a company like PFI. Our focus has always been on delivering strong, stable returns, from our industrial property portfolio. That being the case, we should not expect to return 40% a year, year after year, from a company like PFI.

Second, given the breadth of the impact of the COVID-19 pandemic, I am sure nobody at this meeting needs to be told that we have experienced a high level of volatility in recent months. As shown on this graph, recent events have seen our share price go as low as \$1.61, before recovering to around \$2.42 at the end of May. But again, to put that into context, exactly one

year ago, PFI's shares closed at \$2.03. And so, over the course of the last year – including the period where the COVID-19 pandemic has unfolded – despite these uncertain times, PFI's shareholders have seen an increase in the value of their shares of 39 cents, and dividends of 7.6 cents per share, a return of around 23%. We believe that this highlights that industrial property is a favoured asset class.

But the third and perhaps the most important point I wanted to make today, was to put recent events into the context of the many storms that PFI has weathered in its 26-year history. A quick search on the internet will tell you that there have been around a dozen major economic crises since PFI was formed, the GFC being the most recent downturn prior to the current COVID-19 health and economic crisis. Looking closer at the GFC, during that downturn PFI's share price fell by around a third, from around \$1.50, to under \$1.00, and dividends fell from around 7.2 cents per share, to 6.6 cents per share.

In all of those crises, or storms, there are a number of characteristics that served PFI well then, and will serve PFI well now, as we weather this latest storm:

1. First, we aim to own the right industrial properties, in the right locations, and fill them with quality tenants.
2. Second, we have an experienced and dedicated team, working alongside those tenants.
3. Third, we keep our gearing low, accepting that low gearing results in slightly lower returns in the good times, but knowing that low gearing will serve you well in times of crisis.
4. And lastly, our dividends reflect what we earn, so we don't increase our gearing by paying out more than that which we have earned from our tenants.

No doubt there will be some very challenging times ahead, but PFI has weathered many storms, and we believe we are well placed to respond to these latest challenges, and indeed any opportunities that may arise from them.

There'll be the opportunity for questions or comments later in the meeting, but for now I'll hand over to Simon for his presentation.

**<< Slide 8: 2019 PROGRESS >>**

**<< Simon Woodhams >>**

Thanks Ant, and good morning everyone.

Well this is a bit different, it's a shame we can't all be in a room together, but we are in unique times so we will just have to push on and make do!

Over the next few slides, I am going to give you a brief update on the progress we made with our strategy last year, before I then talk about COVID-19, our response, and our plans for the future.

During 2019, we made excellent progress on the priorities laid out at the beginning of the year.

In addition to the significant asset management activity, which Ant touched on earlier, these priorities included the replacement of PFI's non-industrial assets with quality industrial properties in sought-after areas.

To that end, \$106 million was committed during the year to four prime Auckland industrial opportunities. 12-year leases were secured at three of the four sites, with tenant commitment to be secured by our leasing team at the fourth property in Tidal Road whilst the property is under construction. Across these transactions, the return to PFI is estimated to be around 5.6%.

Significant progress was also made in divesting PFI's non-industrial properties, with \$40 million of transactions contracted during the year. Non-industrial properties now account for just 10% of PFI's portfolio.

Finally, value-add strategies within the existing portfolio also formed an important part of our 2019 activities. We spent almost \$15 million during the year on those initiatives and committed a further \$21 million to four new significant projects.

As we began 2020, we were continuing on our pathway to becoming a pure-play industrial listed property vehicle, but we have of course had to turn our attention to the impact of the COVID-19 pandemic on ours and our tenant's businesses. Over the next few slides, I will spend some time outlining our response to the pandemic.

**<< Slide 9: COVID-19 >>**

For the purpose of the meeting today, we have broken our thoughts on COVID-19, and its impact on PFI and our operating environment, into three phases:

First, what was our immediate response?

Second, how are we responding to it now?

And third, how are we thinking about the pandemic looking forward?

So, moving onto our immediate response.

**<< Slide 10: OUR IMMEDIATE RESPONSE >>**

In early March as we watched the pandemic unfold offshore, we recognised that the timing of our capital commitments, and divestments of our remaining non-industrial properties, might be impacted. So we took the pro-active step of securing an additional \$50 million of bank funding, or liquidity, from one of our key banking partners, the Commonwealth Bank of Australia.

As we then moved into lockdown, we instigated our business continuity plans by closing the office and re-establishing our team to work from home.

At the same time, we began working with our tenants, whose businesses were impacted in a wide range of ways from the lockdown, with some continuing as essential services, whilst others were forced to close.

We also spent significant time as a Board and Management Team reviewing different scenarios that might play out, ensuring that we were both prepared and resilient across a wide range of outcomes. This led us to examining our costs, both capital and operating in nature, and making cuts to and deferrals of expenditure, where appropriate.

**<< Slide 11: HOW WE ARE RESPONDING NOW >>**

As we have moved through the various levels of lockdown and the country has begun to start back up, our focus is on ensuring our tenants are able to perform going forward. To that end, we have been – and are continuing to – work closely with our tenants.

On a case by case basis, a range of solutions have been agreed with a number of tenants to share the impact between the tenant and PFI.

These solutions include abatement of a proportion of rent for several of PFI's tenants who have been significantly affected by the lockdown.

Rent deferrals have been agreed with some other tenants, and in some cases, discussions have been combined into wider lease discussions.

To put all of this into perspective, over April and May, we have collected around 90% of all rental and opex due, and to date we have agreed 45 abatement and deferrals deals over approximately 1.2% of annual rent, with those deals split evenly between abatement and deferral.

Another way that the COVID-19 pandemic is impacting us at the moment is that divestments of our non-industrial properties are on hold for now. We will look to continue with those divestments once the market starts to function normally again.

#### **<< Slide 12: LOOKING FORWARD >>**

Looking forward, we expect discussions with PFI's tenants to continue throughout much of 2020. As I mentioned earlier, in those discussions, our aim is to ensure our tenants are in a good position to perform in the future.

We will also look to divest those remaining non-industrial properties when the time is right.

But as Ant mentioned earlier, PFI has weathered many storms, and we believe we are well placed, not only to respond to these latest challenges, but also to capitalise on any opportunities that may arise out the other side.

Our low gearing and diversified funding mix leave us in a good position to pursue the acquisition of additional quality industrial properties. As is our custom we will continue to target properties that will improve the Company's overall portfolio, and we believe we will start to see the right kinds of opportunities emerge soon.

**<< Slide 13: ONE OF NEW ZEALAND'S FOREMOST LISTED PROPERTY VEHICLES >>**

The final slide of my presentation shows the trajectory PFI has been on: 26 years ago, PFI started out with a portfolio valued at just \$74 million, at the end of 2019, PFI's portfolio was valued at around \$1.5 billion. And as we have mentioned a number of times already, shareholders have enjoyed a total average annual return of around 11% from inception until today.

We have been focused on that trajectory, and on those strong, stable returns for a long time now, and this Board and Management Team are both committed to and excited about continuing that focus through good times – like last year – and more challenging times – like those that we are in now.

We look forward to sharing more of our progress with you in the months and years ahead.

I will now hand the meeting back over to Ant

Thank you very much.

**<< Slide 14: SHAREHOLDER DISCUSSION >>**

**<< Anthony Beverley >>**

Thank you, Simon.

There is now an opportunity for questions or comments on the presentations, or on the financial statements and auditor's report, which you can find from page 62 of the annual report.

If you would like to ask a question, press the question button on your computer, tablet or mobile, and then type and submit your question.

**<< Slide 15: 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 16: ORDINARY RESOLUTIONS >>**

Before we now move to the resolutions, I wanted to provide an update on the Board's succession plans.

As outlined last year, some time ago it became clear that whilst the Board had remained stable for a number of years, changes were afoot for some of our long-standing Directors, and with this in mind we set out on a review of Board composition and began succession planning.

We wanted to be careful about that plan as the composition and stability of the Board has served PFI well over the years.

The Board succession plan reflects what we believe the Board needs in terms of the type and combination of Directors going forward, both the technical skills and background, but also importantly, maintaining a Board with strong practical commercial capability and experience. The Board is also conscious that regulatory and market changes call for different kinds of technical and specialist governance skills and the composition of the Board is responding to these changes over time too.

Susan Peterson was appointed in 2016 as the first appointment under our succession plans, and David Thomson's appointment followed in 2018. The Board evolved further in 2018 with Peter Masfen's retirement.

Dean Bracewell, whom the Board appointed late last year, is the latest Director to be appointed under our succession plans, and you will hear from Dean shortly. And, as outlined earlier today, Humphry Rolleston is today retiring from the Board.

Board composition and succession planning is an ongoing focus for us, and we anticipate that our Board will see further changes in the next 12 to 24 months.

On that note, having been on the Board for a considerable time now, I wanted to let you all know that I do not intend to stand for a further term after today's election, and will therefore retire from the Board in the next 12 to 24 months. In the interim, the Board will consider its options for a replacement Chair and any announcements on this will be made as and when appropriate.

Now to the resolutions themselves.

Craig advises me that 355 shareholders, representing 128,838,486 shares or 25.78% of the Company's shares on issue, 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.

The procedure for the conduct of the poll is as outlined earlier: the poll is open to vote now, to give you plenty of time to vote. The resolutions and voting choices are displayed on your screens, and to vote, simply select your voting choice from the options shown on screen. You can change your vote at any time up until when the poll is closed. To change your vote, simply select another voting choice.

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 three ordinary resolutions.

We will now provide an opportunity for you to ask questions on all three resolutions.

If you would like to ask a question, press the question button on your computer, tablet or mobile, and then type and submit your question.

**<< Slide 17: ORDINARY RESOLUTIONS >>**

Thank you for your questions.

As the next resolution is in respect of my re-election, I would like to call upon our Nominations and Remuneration Committee Chair, Dean, to chair the meeting.

**<< Dean Bracewell chaired the meeting >>**

Thank you, Anthony.

The first resolution is that Anthony Beverley, who retires and is eligible for election, be elected as a Director of the Company.

The Board considers Anthony will be an Independent Director, if elected, and supports his re-election.

Anthony is well known to many of you and there is a profile of Anthony in the notice of meeting.

Turning to the resolution: *“That Anthony Beverley, who retires and is eligible for election, be elected as a Director of the Company.”*

Please record your vote for resolution 1.

I will now hand the meeting back to Anthony.

**<< Anthony Beverley >>**

Thank you, Dean.

The second resolution is that Dean Bracewell (appointed by the Board as a Director on 29 November 2019), who retires and is eligible for election, be elected as a Director of the Company.

The Board considers Dean will be an Independent Director, if elected, and supports his election.

Dean is currently a Director of Tainui Group Holdings Limited and has recently been appointed as a Director of Air New Zealand Limited and to the Executive Board of the Halberg Foundation. He is also involved in an advisory role to the Ministry of Transport. From 1999 through to 2017, Dean was Managing Director of Freightways. There is a profile of Dean in the notice of meeting.

Dean, would you like to say a few words?

**<< Dean Bracewell spoke >>**

**<< Anthony Beverley >>**

Thank you, Dean.

The resolution is: *“That Dean Bracewell (appointed by the Board as a Director on 29 November 2019), who retires and is eligible for election, be elected as a Director of the Company.”*

Please record your vote for resolution 2.

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

Please record your vote for resolution 3.

We will just give you all a moment to finalise voting, and then I will close the poll.

The poll is now closed, thank you.

**<< Slide 18: GENERAL BUSINESS >>**

We now come to general business.

If there is something you wish to put to the meeting, press the question button on your computer, tablet or mobile, and then type and submit your question.

As mentioned earlier, we will try to get to as many of the questions as possible, but not all questions may be able to be answered. In this case, questions will be followed up after the meeting.

**<< Slide 19: CLOSE OF MEETING >>**

Thank you for your continued support of PFI, and for your attendance today. We would welcome any feedback that you have on this virtual meeting format.

That ends the meeting, and I declare the meeting closed.

**<< Slide 20: DISCLAIMER >>**