

360 Capital Industrial Fund

24 February 2016

Interim Financial Results for the Half Year ended 31 December 2015
Upgrade to forecast FY16 earnings to 22.7cpu

360 Capital Investment Management Limited (360 Capital) as Responsible Entity for the 360 Capital Industrial Fund (Fund or ASX code: TIX) is pleased to announce the Fund's results for the half year ended 31 December 2015.

Highlights

- Statutory earnings of 0.9 cents per unit (cpu)
- Operating earnings of 11.7cpu up 17.0% on previous corresponding period (pcp)
- Distributions of 10.8cpu up 8.9% on pcp and tracking in line with full year guidance of 21.6cpu
- Compulsory acquisition of ANI completed on 1 December 2015 –making TIX the largest pure rent collecting industrial AREIT with property assets of \$867.0 million
- Leased 30,706sqm or 4.3% of the portfolio with a further 66,948sqm (9.6% of the portfolio) subject to advanced negotiations with current occupancy of 99.4%
- \$140.4 million of new equity raised via scrip component of Australian Industrial REIT (ANI) transaction
- ANI debt fully repaid with NAB and Bankwest with facility limit increased to \$420.0 million at overall reduced interest rate
- Gearing of 43.4% compared to 40.0% in pcp with reductions to be achieved through non-core assets sales and revaluations
- As a result of the continuing strong portfolio performance, coupled with a delay in proposed asset sales, the Fund has upgraded its FY16 operating earnings guidance from 22.3cpu to 22.7cpu. Distributions unchanged at 21.6cpu.

Financial performance

Earnings & distributions

Statutory net profit of \$1.6 million was 89.0% below pcp driven by one off transaction and other associated costs in relation to the ANI transaction.

Operating earnings of \$24.9 million was 115.6% up on pcp driven by higher property income from acquisitions, fixed rental increases, lower finance costs and the ANI acquisition. Operating earnings reflects 100.0% of ANI's operating earnings during the period.

Underlying earnings certainty and the ANI acquisition has provided DPU growth of 8.9% on pcp to 10.8cpu.

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Assets & liabilities

Acquisitions of \$334.1 million through the acquisition of ANI have increased the total assets of the Fund by 41.7% to \$882.8 million.

After raising \$140.4 million of equity and issuing an additional 59.5 million units through the scrip component of the ANI transaction, the Fund's Net Tangible Assets (NTA) has increased 30.8% on pcp to \$466.4 million.

ANI transaction

The compulsory acquisition of ANI was completed on 1 December 2015. An additional 16 properties have been integrated into the existing portfolio of 21 properties. The transaction represented an equivalent property yield of 8.3%.

TIX's focus is now on the consolidation of the ANI transaction and delivering on its strategy. TIX has commenced addressing near term expiries and has progressed negotiations on the larger expiries within the portfolio. Favourable leasing outcomes are expected to translate into NTA increases through revaluations.

Portfolio management

TIX portfolio now comprises 37 industrial assets as a result of the ANI acquisition and has increased exposure to the strong economy of NSW of 43.5% (by value) and improved the scale and diversity of the Fund.

The ANI transaction brought with it an additional 19 tenants of which two tenants (Visy and Greens) crossed over with the existing TIX portfolio. Major tenants include Visy, Orora, Garmin, Chevron, Australia Post, Australian Pet Supplies and K&S Freighters.

Like-for-like net property income increased by 4.9% for the period driven by over 90.0% of the property portfolio subject to fixed rent reviews averaging 3.3% and the releasing of vacant space at 69 Studley Court, Derrimut, VIC.

Since acquiring ANI, negotiations with tenants representing over 66,948 sqm or 9.6% of the portfolio have been progressed. FY16 lease expiries have been largely dealt with. Pending expiries will be a key focus for the Fund over the coming six months. In FY17, 18.5% of the portfolio is due to expire, however advanced negotiations are underway on 52.0% of these expiries. TIX has a strong track record of dealing with lease expiries early and this has helped the portfolio maintain high occupancy of 99.4% and a long weighted average lease expiry (WALE) of 4.9 years.

Property Disposals

Approximately \$50.0 million of assets have been identified for disposal over the course of FY17, subject to the outcome of current leasing campaigns. Apart from the ANI transaction concluding in the period, no other acquisitions were made and TIX is not focused on any other acquisitions at present.

One non-core property, 33-59 Clarinda Road, Oakleigh South VIC was sold for \$10.5 million on 18 December 2015 with net proceeds used to reduce debt.

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Property valuations

The Fund's properties were valued by the Directors as at 31 December 2015 and remained in line with previous independent valuations. 90.4% of the portfolio has been valued since October 2014. The Fund's weighted average capitalisation rate (WACR) stands at 7.9%.

The Fund intends to undertake external valuations in Q3 or Q4 of FY16 which, based on pending market transactions, is anticipated to result in cap rate compression of between 25bp and 50bp.

Capital management

A total of \$140.4 million of equity (59.5 million units) was issued in the period as part consideration of the ANI transaction. TIX now has a total of 211,957,288 units on issue. As a result of the additional units issued, TIX's NTA per Unit has decreased in the period to \$2.20 per Unit despite NTA increasing to \$466.4 million.

The Fund now has a facility of \$420.0 million of which \$390.0 million is drawn. The ANI debt of \$130.0 million was repaid and integrated into the existing syndicated debt facility with Bankwest increasing its exposure to \$170.0 million. A new \$80.0 million interest rate swap was entered into with Bankwest. TIX's interest rate hedge book now totals \$400.0 million and reflects an average rate of 2.53% (excluding any margins) and are hedged for an average of 3.5 years, bringing the Fund's all in debt cost to approximately 3.85%. Gearing is 43.4% and will continue to trend downward towards the lower end of the target range of 35% to 45% through asset sales and expected valuation uplifts. The Fund remains comfortably within its debt facility covenants.

The market capitalisation of the Fund is approximately \$517.0 million with TIX's possible inclusion in the S&P/ASX 200 Index in the future.

Management changes

Ben Butler will step down as the Fund Manager of TIX at the end of this month after a very active and successful three years since the listing of the Fund. Ben has decided that after completion of the recent ANI acquisition, he would like to pursue his next challenge in the property industry.

Mr Tony Pitt, Managing Director of 360 Capital Group, commented on Mr Butler's contribution to the business saying "Ben has played a key role in managing the Fund during which time assets have grown from \$302.0 million in 2012 to just under \$900.0 million today. On behalf of the Board and management I thank and acknowledge his contribution to 360 Capital and wish him every success in his future endeavours."

James Storey will be appointed Fund Manager of TIX in addition to his role as fund manager of the 360 Capital Office Fund (TOF). James is well placed to lead the fund with many of the TIX investors and advisors common to TOF. In previous roles with the Group, James was involved in asset management of several of the TIX assets. Jason Griffiths continues as the Investment Manager of TIX and will remain focused on portfolio performance, leasing and capital transactions. Jason has had significant involvement in the TIX portfolio successes and has been working on the portfolio since 2011.

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Outlook & guidance

The Fund's strategy is unchanged with a focus on investing in passive industrial assets to provide income with the potential for capital growth. For the moment, the key focus for TIX is to ensure the smooth and effective integration of the recently acquired portfolio and addressing short and medium term expiries in order to enhance earnings certainty.

Non-core asset sales as well as valuation uplifts are expected to see gearing reduce below 40.0% in the short to medium term and trend towards the lower end of the target range of 35.0% to 45.0%.

TIX remains committed to growing EPU and DPU for Unitholders.

Earnings guidance for the full year to 30 June 2016 has been upgraded to 22.7cpu primarily due to a delay in asset sales, whilst distribution forecasts are unchanged at 21.6cpu.

More information can be found on the ASX's website at www.asx.com.au using the Fund's ASX code "TIX", on the Fund's website www.360capital.com.au, by calling the 360 Capital investor enquiry line on 1800 182 257 or emailing investor.relations@360capital.com.au

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About 360 Capital Industrial Fund (ASX code TIX)

360 Capital Industrial Fund is an ASX-listed Fund focused on passive rent collecting from warehouse and logistics properties in Australia in the \$10.0 million plus range. The Fund has strong, defensive, income-focused investment fundamentals via a diversified \$867 million portfolio of 37 quality assets, a weighted average lease expiry of 4.9 years, occupancy of 99.4%, distributions tax deferred at approximately 40% and a forecast FY16 distribution of 21.6cpu. The Fund is externally managed by 360 Capital Group, a leading ASX-listed real estate investor and fund manager that operates under a transparent fee structure and is the largest unitholder in the Fund to ensure ongoing alignment of interests with Unitholders.

About 360 Capital Group (ASX code TGP)

360 Capital Group is an ASX-listed, property investment and funds management group concentrating on strategic investment and active investment management of property assets. The company actively invests in direct property assets, property securities and various corporate real estate acquisitions within Australian real estate markets on a private equity basis. 360 Capital Group manages nine investment vehicles holding assets valued at over \$1.4 billion on behalf of over 12,000 investors and has over \$200 million worth of co-investments across the 360 Capital Group.
