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MC0.SI – Q2 2018 Global Logistic Properties Ltd
Earnings Call

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PRESENTATION

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Operator

Ladies and gentlemen, thank you for holding, and welcome to the Global Logistic Properties Conference Call. (Operator Instructions) I'd now like to turn the call over to Ms. Ambika Goel, Senior Vice President of Capital Markets & Investor Relations. Please go ahead.

Ambika Goel - *Global Logistic Properties Limited - SVP of Capital Markets and IR*

Welcome to GLP's second quarter FY '18 earnings briefing. Thanks everyone for joining us today. Our presentation materials and webcast are available on our website.

Our senior management team is on the call today to discuss second quarter results and the proposed

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privatization. Ming will cover GLP's strategy and performance for the quarter; Steve will discuss our entry into Europe and provide an update on the proposed privatization; and then Heather will run through our financials. We also have Kaz with us on the call today, and the team is available to answer questions following our presentation. (Operator Instructions)

Please note that GLP is bound by the rules of the Singapore Take-over Code and we can only discuss information which has been publicly disclosed. Please also note that Ming is on the call today in his capacity as CEO, and thus, he will not be able to take questions related to Nesta Investment Holdings. All numbers are expressed in U.S. dollars and area is referenced in square meters, unless otherwise stated.

Thank you. And I will now hand over to Ming.

Ming Z. Mei - Global Logistic Properties Limited - Co-Founder, CEO & Executive Director

Well, thank you, Ambika, and thank you all for joining today. During the quarter, the team continued to focus on executing our growth strategy. We continue to focus on being the best operator, creating value through development and continued\ expanding our fund management platform. The solid results we achieved this quarter reflect this focus.

We are pleased to report earnings growth of 34% year-on-year in the second quarter of financial year 2018. Our high quality portfolio continue to generate stable, recurring income. Our group lease ratio increased 1% quarter-on-quarter to 91%. Same-store NOI grew 4.6%, led by 11.4% growth in China and our weighted average lease expiry stands at 3.5 years overall. We continue to focus on creating a logistics ecosystem for the future through big data technologies and innovative space solutions.

In our development business, we continue to focus on creating value. We target to start \$2.2 billion this year and complete \$1.7 billion of projects. So far, we have achieved 25% of our starts and 49% of our completion targets. This is in line with our expectations. We typically see developments pickup in the second half of the year and we remain confident of meeting the full year target.

Finally, we continue to execute on our long-term strategy of expanding our fund management platform. Our platform stands at \$39 billion and continues to perform well. Last month, we announced our entry into Europe. This is a market which we have been looking at for a while. The \$2.8 billion Gazeley portfolio adds a premier operational and development platform for GLP. The portfolio will be injected into GLP's fund management platform. Demand from partners outstripped the amount available for investment and we expect the portfolio to be fully syndicated by April 2018. And Steve will add more color on this shortly.

For the first half of the year, fund fees were \$98 million. This is up 9% year-on-year. Our fund

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management platform will continue to be a key part of our business, and it provides a platform for us to fund official growth.

Today, we announced several executive appointments. These changes strengthen our global leadership position. They are what's right for the business and highlight the fact that our executives have the room to progress their career with us.

Our current CFO, Heather, will be taking on the fresh challenge of being Head of GLP Financial Services, a new business unit that provides financial solutions to our customers in China. Heather's experience will be vital to the success of this business unit, which is a crucial element of our goal to create a logistics ecosystem.

Kaz has been appointed CFO, effective January 1st, 2018. This is a natural next step for Kaz, given his existing roles as Global Treasurer and CFO of GLP Japan. Kaz and Heather have been working closely together on the strategy to financially position GLP for further global growth, enabling a smooth transition.

Steve, our Chief Operating Officer, will continue to oversee our global operations and is relocating from Singapore to Chicago. This is a strategic move to support the expansion of our business in the U.S. and in Europe.

We have appointed Alan Yang as GLP's Chief Investment Officer. This is an extension of the work he has been doing already. Alan was instrumental in GLP's entry into the U.S. and Europe. He will continue to oversee all investment activity across GLP and chair the Investment Committee from Los Angeles.

Each of these management changes position our company for further global expansion and highlights the depth of talent we have within GLP.

Please turn to Slide 4. Our financial position remains healthy, supported by solid cash flow from operations and fund fees, \$1 billion cash on hand at the end of September and additional credit facilities. Our business model gives us financial flexibility. Through our fund management platform, we are able to recycle capital from mature, stabilized properties, and use the proceeds to fund new development and acquisitions. This way, we are able to maintain a strong balance sheet even as we grow.

We have recycled close to \$7 billion worth of assets over the last 5 years, and we have the capacity to do more. We're able to execute multiple funding levers, including more asset sales to the JV; establishing potential China acquisition funds and income funds; syndicating new and existing portfolios including Europe; and establishing of new funds and REITs.

And with that, I'll turn it over to Steve.

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Stephen Schutte - *Global Logistic Properties Limited* - COO

Thank you, Ming and good morning, everyone. I'd like to start with our European entry on Slide 5. Last month, we announced entering into a definitive agreement to acquire a leading European logistics platform for \$2.8 billion.

In line with previous transactions, the Gazeley portfolio will be injected into our fund management platform and after syndication, we intend to retain an ultimate stake of roughly 15%.

As Ming mentioned, investor demand is very strong. We are actively negotiating with interested partners and expect to complete our 85% syndication by April 2018. As you know, Europe is a market we have been exploring for quite some time, and the Gazeley portfolio was the right fit for our business model at the right time. This transaction provides GLP with one of the highest quality portfolios in Europe as well as an experienced local management team with a strong development track record.

Looking at the portfolio, the 3 million square meters of completed and to-be-developed space is concentrated in Europe's key logistics markets, namely the U.K., Germany, France and the Netherlands. The 1.6 million square meters of existing assets are 98% leased, with a weighted average lease expiry of 9 years. And approximately 60% of the existing assets were built within the last 5 years.

Of the 1.4 million square meter development pipeline, approximately 85% is focused in the U.K., which is one of Europe's most land-constrained markets. We intend to retain the Gazeley brand as well as the strong management team, which averages 19 years of experience in managing and developing logistics real estate, with 5 offices across Europe.

The acquisition will be funded with asset-level debt of \$1.2 billion, and GLP's equity portion will be funded by cash on hand and debt. And we have already secured a long-term, low-cost credit facility for the debt portion of the Gazeley portfolio.

GLP's equity portion will come from various sources of funding, including those that Ming touched on earlier such as capital recycling initiatives via our fund management platform. In summary, the European entry does not impact GLP's financial position, and our 15% share equates to \$240 million of equity.

Next, I want to touch on the privatization on Slide 6. The Offeror, Nesta Investment Holdings, has proposed acquiring all shares of GLP through a scheme of arrangement. This follows the Strategic Review undertaken by the company and overseen by the 4 independent directors who constituted the Special Committee.

GLP's independent financial adviser, Evercore, has advised that the scheme consideration is fair and

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reasonable to shareholders from a financial point of view, and the independent directors concur with the IFA's advice and have unanimously recommended that shareholders vote in favor of the scheme.

The Scheme Document containing full details of the proposed transaction was dispatched to shareholders 2 weeks ago and electronic copies may also be downloaded from our website.

The Scheme Meeting will be held on November 30, during which more than 50% of shareholders present and voting in person or by proxy, would need to approve the Scheme. This is the headcount condition and we strongly encourage all shareholders to send in their votes as they will be very important to a successful process.

Additionally, of the shareholders present and voting, at least 75% in value need to vote in favor of the Scheme. And of note, GIC, which holds 36.84% of shares outstanding has provided an irrevocable undertaking to vote in favor of the Scheme, further details of which are set out in the Scheme Document. If you have any questions on how the process works or the importance of every vote, please reach out to Ambika and the IR team.

If shareholders approve the transaction in November and it is thereafter sanctioned by the court, shareholders can expect payment for their shares by roughly January 19. And after payment, shares are expected to be delisted from the SGX.

With that, I'll turn it over to Heather.

Heather Xie - Global Logistic Properties Limited - CFO

Thanks, Steve. Please turn to Slide 8 for the financial highlights.

Second quarter FY '18 earnings were \$231 million, up 34% year-on-year, driven by higher development profit and higher revaluations from NOI growth. And an unrealized foreign exchange gain of \$41 million.

On a core basis, earnings increased by 14%, primarily due to higher revaluations and NOI growth.

During the quarter, we saw cap rates in Brazil compress 10 basis points to 9.7%. Cap rates in China, Japan and U.S. remained stable quarter-on-quarter. First half FY '18 earnings and core earnings were stable year-on-year. China and Japan continue to contribute the majority of our earnings. Deeper analysis on second quarter and first half country performance can be found on slides 15 and 16.

Now turn to Slide 9 for capital management highlights. Our look-through basis net debt to assets stood at 36% for the quarter. 52% of total debt is fixed and the cost of debt remains low at 3%. In October, we issued RMB 1 billion of Panda bonds at an annual coupon rate of 4.99% in China's interbank market.

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This is in line with our policy to naturally hedge by financing operations in local currency and optimize capital structure. We plan to issue more RMB-denominated bonds depending on financing needs and market conditions.

We are committed to upholding a strong balance sheet, including maintaining investment-grade rating to support our long-term growth objectives. We believe we're able to do so given our fund management platform, which provides us with multiple funding levers.

With that, we will now open for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Michael Lim from UBS.

Michael Lim - UBS Investment Bank, Research Division - Director and Research Analyst

I've got 2 questions. Can you -- the first one is on the operating environment in China. Can you just tell us how it's changed quarter-on-quarter and where you see pockets of improvement? And my second question is on leasing and occupancy. This is for the China portfolio, what is driving the 3 percentage point quarter-on-quarter improvement? And is it sustainable?

Ming Z. Mei - Global Logistic Properties Limited - Co-Founder, CEO & Executive Director

Well, thanks, Michael. So on the overall environment in China, I would say that in general, we are seeing that the easy days of you build them, they will come, those days are over. So that's why over last 2 or 3 years, we've become more disciplined.

We have worked with McKinsey to develop tools to help our customers to optimize the locations and also help us better -- do a better job with the site selection. What we're seeing right now is that land price actually increasing faster than rent growth. So what that means is that in the last couple of quarters and also the next couple of quarters, we are going to start seeing some compression on yield and also development margins will be squeezed a bit.

So that's why we become more disciplined over last year or 2. And then we also -- over last 3, 4 years, we've been putting a strategy together to provide a holistic ecosystem approach to our customers instead of just providing facilities. Because we do believe that just being a facility provider, we'll become commoditized over time.

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But that being said, the strategy we've put in place, working with the stand-alone companies to access off-market land sites have helped us maintain our development margins. And then also the strategy we've put in place of providing holistic approach, providing site selection tools to our customers, help them reduce competitive costs.

Heather's team are providing financial solutions services to the customers to help them reduce overall cost and improve their efficiencies and this has been paying off.

So if you look at last quarter, we have leased over 10 million square meters of new and expansion leases just in 1 quarter and we've been doing that in a couple of quarters already. We expect the solutions and the strategies we put in place over the last 2, 3 years is going to continue to pay off. So that's how we're seeing it, and we're happy to report that even in markets that we were seeing soft, like Chengdu, now we are at 90% lease up. It was in the 60% and 70% range. And then even in Shenyang, that was a very soft, now we're 94% leased up. So again, we saw that and we were managing the supply into those markets and now we're finally seeing the benefit. And we'll continue to execute on our strategy of providing a holistic ecosystem solutions to our customers.

Operator

The next question comes from Yew Kiang Wong from CLSA.

Yew Kiang Wong - *CLSA Limited, Research Division - Research Analyst*

Ming, just want to quickly pick your thoughts on why is the entry to Europe now? And could you also give some of the breakdowns in terms of cap rates for the specific countries, U.K., Germany and so on and so forth?

Ming Z. Mei - *Global Logistic Properties Limited - Co-Founder, CEO & Executive Director*

Thanks, Y.K. I think I will hand over to Steve to give you some details, but we have been looking to Europe for a while now, and not often you get a team that's strong and the reputation of the team over the last 30 years. It's probably one of the best developers and operators in this sector globally. And also the assets are very attractive. So anyway, I'll let Steve share more details with you. He's more involved in this transaction.

Stephen Schutte - *Global Logistic Properties Limited - COO*

Yes. Thanks, Ming. Y.K., I think it's -- for us, a big part of the timing was that we have a brand, the Gazeley brand, which is synonymous with excellence, and that's both in terms of the quality of the

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assets as well as the character of the people behind it. And I think too often people focus really solely on the AUM that goes to the bottom line and underestimate the importance of the team, and that's something we are very focused on. And here we have world-class developers and operators and they do it organically. So very similar to GLP, where about 70% of their existing assets were constructed and developed by them. And so in our meetings so far, it's done nothing but confirm everything we felt, which is that we share the same DNA, we have a lot of synergies and so it was a really rare opportunity where the timing was quite -- was excellent for us. And so even with that said, we're very, very excited about where we think things are going to go in the future. And in terms of cap rates, we had a -- there was a 5.1% cap rate on the stabilized portfolio. And as far as the country-by-country breakout, we can get back to you later. Ambika can get that to you.

Ming Z. Mei - *Global Logistic Properties Limited - Co-Founder, CEO & Executive Director*

Also like another driver is that we've been working side-by-side with our capital partners, the pensions and some global funds around the world, and they were very, very excited with this opportunity. So we're very excited to be able to lead and then partner with our investors to enter into this market.

Yew Kiang Wong - *CLSA Limited, Research Division - Research Analyst*

And I also had a follow-up question. Regarding this deal with Europe, was there any other bidders? How did the deal really come about?

Ming Z. Mei - *Global Logistic Properties Limited - Co-Founder, CEO & Executive Director*

It was -- there were quite a few bidders. We've been tracking a few portfolios and this is one of them, and we've been working on it over last, I would say, 6 months. And so we were down to the last round, and there was -- it was -- again, it was a beautiful girl and everyone wants it.

Operator

(Operator Instructions) Our next question comes from Harsh Agarwal from Deutsche Bank.

Harsh Agarwal - *Deutsche Bank AG, Research Division - Head of Asia Credit Research*

I have a couple of questions. But just before that, I think it's good to see you stating your intention to retain IG ratings and the desire to sell the European portfolio. So that's good, I guess, from a credit perspective. The 2 questions I had was one was, Ming, we've spoken about doing these China funds, I guess, for a while now. Just wondering, can you put a bit more concrete timeline to it? If not, what's

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kind of been preventing you from doing it in the past? And what do you think needs to change for this to eventually happen? The second question I had was on Europe, Steve, is there any way we can get a bit more sort of color on the operational details? Just trying to think how do we kind of forecast the potential revenue, EBITDA, potential for European acquisition?

Ming Z. Mei - *Global Logistic Properties Limited - Co-Founder, CEO & Executive Director*

Thank you, Harsh. I'll take the first part. So again, we have many levers to work with on recycling assets. As you see, we continue to do that to sell assets into the J-REIT. And we have started the process looking at China, both for acquisition as well as income fund. So I cannot share exact detail with you. But we are in the final stages of these initiatives. What goes through our mind is constantly balancing the capital need and then also enjoying additional rental income and also potential further appreciation from the rent growth. If you look at it, the rent growth has been very strong in China. So every quarter that we can defer the valuation increases further, so it's a constant balance between cash needs and also recycling capital. So the short answer is that the demand is very strong and that we have already identified the partners to work with. You should expect recycling asset in China initiating within months. And it's going to be similar to what we've done in Japan. And basically continue to recycle assets to reinvest in high-return development, also further grow our fund management business.

Stephen Schutte - *Global Logistic Properties Limited - COO*

And Harsh, this is Steve. On the -- on your second question, so what we've talked about before is that it'll have about a \$5 million earnings impact, which for us is assuming a 15% interest in the portfolio and includes fund fees. And drilling in a little bit more into the actual portfolio itself, on the operating side it's about 1.6 million square meters. You've got Germany, which is the bulk of that at about 44%. Then France at 25%. The U.K. at 22%. And the Netherlands at 9%. And then on the development portfolio of 1.4 million obviously, it's the U.K. at 83%, Germany at 11% and France at 6%. The whole buildout NOI is going to be about 57% in the U.K, and Germany will be 25%, France is 14% and the Netherlands are 4%. So, obviously, there's a fair bit of detail that goes into our assumptions with all of that, and we can get into some more of that I think off-line and Ambika can help as well.

Operator

We have a webcast question from Nikkei.

With a strong focus on the Europe and the U.S. markets, how do you expect these 2 regions to account for in earnings and asset ratio in the next couple of years?

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Ming Z. Mei - *Global Logistic Properties Limited - Co-Founder, CEO & Executive Director*

Well, thank you. I'll take this question. So as you can see, our track record, we entered the U.S., we started our business there and then we have grown that to a \$15 billion assets under management. So from a starting point of \$2.8 billion in Europe, we expect Europe to follow the similar trajectory. So there's no reason -- there's no reason that we don't have assets under management in U.S. in the \$20 billion to \$30 billion range as well for Europe in that similar -- so if you look it at from a midterm -- mid- to long term, we expect assets under management and each of the regions, probably in the \$20 billion, \$30 billion range in Europe and U.S. We also expect the same or even higher in Asia with China and Japan. So if you -- in totality, that's how I look at it. But again, this is all going to be done under the fund management, what we own probably 10% or less on the equity side. So that will fuel our fees from assets under management. And from a fee contribution standpoint, from an asset management standpoint, we'll probably also see probably 1/3, 1/3 and 1/3 ratio in the middle and the long-term ranges.

Operator

(Operator Instructions) If there are no further questions, I'll hand the conference back to Ming for closing comments.

Ming Z. Mei - *Global Logistic Properties Limited - Co-Founder, CEO & Executive Director*

I want to thank you all for joining today. In summary, we remain confident on the long-term fundamentals of our business. Our strategy remains the same, our team remains focused on further development of our global strategy. We will maintain a strong balance sheet, maintain our investment-grade rating. Again, thank you for your continued support.

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you so much for your attendance. You may all disconnect.

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