

## ASX release

8 August 2013

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### ACQUISITIONS, ASSET UPGRADES AND \$200 MILLION ENTITLEMENT OFFER

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The Directors of BWP Management Limited (**BWPM**), the responsible entity of the BWP Trust (**BWP** or the **Trust**), today announce that the Trust has agreed to acquire a portfolio of 10 Bunnings Warehouse properties and one Bunnings Warehouse anchored bulky goods centre (the **Acquisitions**). The total purchase price for the Acquisitions is \$312.0 million (plus acquisition costs of approximately \$12.4 million) and this reflects the independent valuations of the properties and an initial yield of 7.35 per cent.

BWP has also agreed terms regarding upgrades to the Trust's Bunnings Warehouses at Minchinbury and Rockingham and agreed revised terms regarding the previously announced upgrade to the Trust's asset at Rocklea totalling \$19.9 million (the **Upgrades**). The Upgrades will reflect an initial yield on total outlay of 7.25 per cent. At the completion of each of the Upgrades the Trust has also agreed to enter into new leases.

To partially fund the Acquisitions and Upgrades, BWP is undertaking a fully underwritten 1 for 6.18 accelerated non-renounceable entitlement offer to raise approximately \$200 million (**Entitlement Offer**) to be conducted at a fixed issue price of \$2.30 per new unit (**Issue Price**). The Trust will utilise its existing debt facilities and future additional debt funding to complete the balance of the Acquisitions and Upgrades.

The Issue Price represents a 4.6 per cent discount to BWP's last close price of \$2.41 on 7 August 2013. At the Issue Price the new units are forecast to deliver a 6.3 per cent distribution yield based on the forecast distribution for the year ending 30 June 2014 of 14.6 cents per unit.

The 10 Bunnings Warehouse properties are to be acquired from Bunnings Group Limited (**Bunnings**) a wholly owned subsidiary of Wesfarmers Limited (**Wesfarmers**) and consist of two operational Bunnings Warehouses and eight development sites on which Bunnings will develop Bunnings Warehouses (the **Warehouse Properties**). The purchase price for the Warehouse Properties of \$271.3 million represents the total amount payable to Bunnings assuming the completion of all the Bunnings Warehouses. The purchase price reflects the independent valuations of each of the properties and a weighted average capitalisation rate of 7.19 per cent.

Due to the value of the Warehouse Properties, the Upgrades and the new leases to be entered into, and the fact that the transaction is with Bunnings, a company related to BWPM, unitholder approval is required under the ASX Listing Rules. A unitholders' meeting will be held on Monday, 16 September 2013 at 10:00am AWST in the Botanical Rooms, Crown Perth Convention Centre, Great Eastern Highway, Burswood, Western Australia, to consider and, if thought fit, to pass a resolution approving the transaction with Bunnings.

The Bunnings Warehouse anchored bulky goods centre (**Hoxton Park Central**) is an existing, operational asset located in Prestons, New South Wales, that is being acquired from a third party vendor. The purchase price for the property of \$40.8 million reflects the independent valuation of the property on a capitalisation rate of 8.25 per cent.



Mr Grant Gernhoefer, General Manager, BWP Management Limited said: "The Acquisitions complement BWP's existing portfolio and are expected to provide unitholders with a secure, growing income stream and long-term capital growth, consistent with the Trust's objectives. The Upgrades will further enhance the value of these existing assets, making the properties more in line with Bunnings' current store format and securing future rental income for the Trust".

"The Entitlement Offer to part fund the Acquisitions and Upgrades will ensure BWP maintains its conservatively geared balance sheet and will provide financial flexibility for funding further acquisition and upgrade opportunities", Mr Gernhoefer added.

## Overview of the Acquisitions

### The Warehouse Properties

The Warehouse Properties are located in metropolitan or major regional cities throughout Queensland, Victoria, New South Wales and Western Australia. Each of the Warehouse Properties will be leased from the Trust by Bunnings on settlement (for operational warehouses) or upon completion (for development sites), for an initial fixed term of 12 years and with a further five optional terms of six years each, at Bunnings' election. Under the leases for the Warehouse Properties the rent increases by a fixed three per cent per annum. At the end of the initial term and the exercise of each option by Bunnings the rents are subject to a market rent review, having regard to the rents paid at comparable properties. The market rent reviews for the Warehouse Properties are subject to a 10 per cent 'cap and collar', meaning that the rent cannot rise or fall by more than 10 per cent of the preceding year's rent.

For the eight Warehouse Properties that are being developed, the Trust has contracted with Bunnings to complete the development for a fixed amount. Until the development is completed BWP will receive from Bunnings a monthly access fee equivalent to 7.19 per cent of the purchase price from settlement and Bunnings is responsible for paying all outgoings.

### Hoxton Park Central, Bunnings anchored bulky goods centre<sup>1</sup>

Located in Prestons approximately 40 kilometres south-west of the Sydney central business district, the property is anchored by a Bunnings Warehouse (68 per cent of total rental) and also contains an Officeworks (11 per cent of total rental) and a Kennards Self Storage facility (21 per cent of total rental). The Bunnings Warehouse has a further 7.3 years of term certain remaining and five optional terms of six years each; Officeworks has a further 3.0 years of term certain remaining and four optional terms of five years each and the Kennards Self Storage facility has a further 10.3 years of term certain remaining, one further option of nine years and three optional terms of six years each.

The lease expiry profile for Hoxton Park Central, weighted by income, is 7.4 years with 79 per cent of total rental income being derived from wholly owned entities of Wesfarmers.

## Overview of the Upgrades

The Upgrades are expected to be completed between October 2013 and July 2014. Upon completion the Trust will enter into new leases with Bunnings for an initial fixed term of 12 years with annual CPI<sup>2</sup> increases and a further four optional terms of six years each, at Bunnings' election. At the first market rent review, at the commencement of year 13, the revised rent will be no lower than the passing rent, but any increase is capped at 10 per cent of the passing rent. Market rent reviews will be subject to a 10 per cent 'cap and collar' thereafter. All other terms and conditions of the existing lease remain the same.

<sup>1</sup> Lease expiry details as at 30 June 2013

<sup>2</sup> The Consumer Price Index as calculated and published by the Australian Bureau of Statistics.



### Transaction rationale

The Acquisitions, Upgrades and Entitlement Offer (collectively the **Transaction**) are expected to provide the following benefits to the Trust:

- Secures a significant portfolio of established and new properties, representing an approximate 24 per cent increase in the value of the Trust's investment properties and provides a platform for future income and capital growth.
- Will be neutral to distributions per unit for the year ending 30 June 2014 and is expected to be accretive thereafter.
- Will increase the net tangible asset backing of the Trust on a pro-forma basis.
- The Transaction will increase the weighted average lease expiry profile of the Trust.
- Maintains the geographic diversity of BWP's portfolio, and increases the proportion of rental income derived from New South Wales and Queensland.
- The Upgrades will modernise and improve the quality of three existing Trust assets, secure additional annual rental income on completion and increase the committed term of the leases.
- The mix of debt and equity funding to undertake the Acquisitions and Upgrades allows the Trust to maintain a conservatively geared balance sheet to provide financial flexibility to undertake further acquisition opportunities and capital improvements to existing Trust properties.

### Funding of the Acquisitions and Upgrades

The total funding requirements of \$344.3 million will be satisfied via the \$200 million Entitlement Offer with the balance of funding to come from the Trust's existing debt facilities and future additional debt funding<sup>3</sup>.

The Entitlement Offer is not subject to unitholder approval and will proceed regardless of whether or not the resolution to approve the transaction with Bunnings is approved by unitholders. The Entitlement Offer is being undertaken in advance of the unitholders' meeting to provide certainty of the availability and cost of funding. The Entitlement Offer is considered to be an appropriate structure to raise the desired equity as it allows all eligible unitholders to participate on a pro-rata basis.

Directors with unitholdings in BWP have confirmed their intentions to take up their full entitlements under the Entitlement Offer.

UBS AG, Australia Branch, is acting as sole financial advisor, lead manager and underwriter in respect of the Transaction.

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<sup>3</sup> The Trust currently has approximately \$430 million of bank bill facilities. The Trust intends to obtain future additional debt funding, at the appropriate time, to complete the Acquisitions and Upgrades. This may come from additional debt funding from the Trust's existing lenders or new lenders or additional debt funding from the debt capital markets utilising the Trust's A- credit rating from Standard and Poor's.



### **Wesfarmers' commitment to the Entitlement Offer**

Wesfarmers, through a wholly owned subsidiary, is the Trust's largest unitholder, with approximately 24.3 per cent<sup>4</sup> of the units on issue in the Trust, and wholly owns BWPM, the responsible entity of the Trust. In addition, Bunnings, a wholly owned subsidiary of Wesfarmers, is the major tenant of BWP. Wesfarmers has indicated its intention to take up all of its entitlement under the Entitlement Offer, amounting to approximately \$49 million.

### **Distribution guidance**

New units issued under the Entitlement Offer will rank equally with existing units and will be entitled to the full distribution for the year ending 30 June 2014. Allowing for the additional units issued under the Entitlement Offer, the forecast distribution for the six months to 31 December 2013 is 6.8 cents per unit. The forecast distribution for the six months to 30 June 2014 is 7.8 cents per unit. The distribution for the full year ending 30 June 2014 is therefore expected to be 14.6 cents per unit. The Transaction is expected to have a neutral impact on this forecast and is expected to be accretive to distributions per unit for the year ending 30 June 2015 by approximately 2 per cent.

This forecast reflects management's expectations of 100 per cent portfolio occupancy and a conservative estimate of income growth from structured and market rent reviews for the Trust's existing properties. Adjusting for the impact of the Transaction, the average rate of borrowing costs is estimated to be 6.7 per cent (inclusive of fees and margins) and borrowings are estimated to be 60 per cent hedged, on average, over the financial year.

The forecast also takes into account a waiver by BWPM of its entitlement to the management fee from the Trust relating to the Warehouse Properties. The management fee which, under the Trust's constitution would otherwise apply to the value of the Warehouse Properties will be reduced by 100 per cent from the date of settlement until 30 June 2014. The full management fee will be payable on the Warehouse Properties from 1 July 2014 and the expected impact for the year ending 30 June 2015 assumes the full management fee is paid.

In the event the acquisitions of the Warehouse Properties and Upgrades are not approved by unitholders, in addition to funding the acquisition of Hoxton Park Central, which is not subject to unitholder approval, the net proceeds from the Entitlement Offer will be used to repay debt and be held on deposit for future capital expenditure and acquisition opportunities. In addition, costs to close out interest rate swaps (\$1.7 million) and costs incurred to date in pursuing the Transaction (estimated at approximately \$0.25 million) would be written off in the year ending 30 June 2014, reducing the full year distribution for the year ending 30 June 2014 to an estimated 13.7 cents per unit.

### **Additional information**

Additional information about the Transaction is contained in the management presentation released to the ASX today. The Retail Entitlement Offer booklet and the Notice of Unitholders' Meeting and Explanatory Memorandum, will be mailed to eligible unitholders and will be available on the Trust's website.

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<sup>4</sup> As at 8 August 2013



### Unitholder enquiries

Unitholders who have any questions regarding the Entitlement Offer should contact the BWP Trust Information Line on 1300 136 972 (within Australia) or on +613 9415 4323 (from outside Australia) at any time from 8.30am to 7.00pm Australian Eastern Standard Time, Monday to Friday.

For further information please contact:

**Grant Gernhoefer**

General Manager  
BWP Management Limited

Telephone: +61 8 9327 4356

E-mail: [ggernhoefer@bwptrust.com.au](mailto:ggernhoefer@bwptrust.com.au)

Website: [www.bwptrust.com.au](http://www.bwptrust.com.au)

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*This release and its attachments include certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "predict", "guidance", "plan" and other similar expressions are intended to identify forward looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Due care and attention has been used in the preparation of forecast information. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of BWPM, BWP, and their officers, employees, agents and advisors, that may cause actual results to differ materially from those expressed or implied in any forward-looking statements. Actual results, performance or achievements may vary materially from any projected forward-looking statements and the assumptions on which those forward-looking statements are based. BWPM does not guarantee any particular rate of return or the performance of BWP nor does it guarantee the repayment of capital from BWP or any particular tax treatment. Readers are cautioned not to place undue reliance on forward-looking statements and should also have regard to the "Risks" section of the management presentation relating to the Entitlement Offer also released today. BWPM assumes no obligation to update such information.*