



ALE Property Group

Annual General Meeting – 31 October 2017

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Crows Nest Hotel, Sydney, NSW

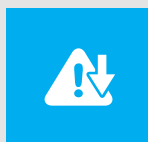
ALE Property Group

Delivering Value



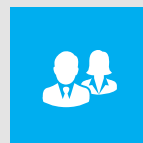
High quality properties

- Growing, long term and secure income
- Triple net leases
- Metro locations
- Operated as pubs for average 60+ years



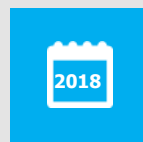
Low risk capital structure

- Investment grade credit rating
- Long term and diversified funding maturities
- Long term hedging



Strong and cost effective governance

- Experienced Board and management team
- One of lowest management expense ratios in sector



FY18 outlook

- Increasing distributions
- Distributions expected to be fully tax deferred
- Positive prospects for upcoming market rent reviews
- Continuing review of development opportunities



Group Highlights

Year to 30 June 2017

Portfolio Performance

\$1,080.2m

Statutory property values

5.14%

Average capitalisation rate

11.3 years

Weighted average lease expiry

1.5%

CPI income growth

100%

Occupancy

Capital Management

42.7%

Net gearing

4.7 years

Average debt maturity

8.4 years

Hedge maturity

4.26%

All up cash interest rate

Baa2

Investment grade rating

Equity Performance

\$29.1m

Distributable profit

20.40 cps

Distribution

100%

Distribution tax deferred

\$914.2m

ASX market capitalisation

22.9% p.a.

Three year total return

Capitalisation rates, lease terms, interest rates, maturity terms and rental growth rates are all weighted averages.

Specific definitions are on other pages or in the statutory accounts.

Results are for the year ending or as at 30 June 2017.

In addition to the weighted average lease expiry term there are four 10 year options for ALH to extend (83 of 86 properties).



Financial Results

Year to 30 June 2017



Financial Highlights

Year to 30 June 2017



Profit

- Distributable profit of **\$29.1m**
- Net profit after tax (IFRS) of \$130.0m



Growing Distributions

- Full year distribution of **20.40 cps**
- Up 2.0% on previous corresponding period (pcp)
- In line with guidance
- 100% tax deferred



Sound Capital Position

- Refinancing of Aug 2017 debt maturity completed
- Gearing at all time low provides significant headroom
- Diversified debt maturities
- Long term hedging



Consistent Outperformance

- 2003 IPO investment in ALE of \$1.00 has current accumulated value at 30 June 2017 of \$14.72
- Outperformed AREIT 300 Index to 30 June 2017 for all periods including 1, 3, 5, 10 and 14 years since IPO



Property Highlights

Year to 30 June 2017



Property Revenue of \$57.0m

- Up \$0.8m or 1.5%
- Driven by annual CPI rent increases



Property Valuations \$1,080.2m

- Valuations increased by 9.1%
- Average capitalisation rate decreased to 5.14%
- Discounted cash flow methodology valuations of 33 properties equivalent to a 4.48% cap rate
- Pub property market remains strong
- Continuing capital expenditure contributing to growing ALH operating earnings at the properties



Property Value Outlook

- Properties with significant land value component
- More than 90% of ~1 square kilometre of land located in Australian capitals and major cities
- ALE and ALH continue to explore development opportunities together for mutual benefit



Distributable Profit

Year to 30 June 2017

Millions	June 17	June 16	Comments
Revenue from properties	\$57.0	\$56.2	▪ Driven by annual CPI based rent increases
Other revenue	\$1.3	\$1.1	▪ Higher cash balances partly offset by lower interest rates
Borrowing expense ¹	\$21.8	\$20.7	▪ Early refinancing and lower interest rates on increased borrowings
Management expense	\$5.2	\$4.9	▪ Remains one of lowest expense ratios in sector
Land tax expense	\$2.2	\$2.1	▪ Land tax for QLD properties only
Distributable Profit ²	\$29.1	\$29.6	▪ Primarily impacted by one-off borrowing expenses
Distributable Profit (cps) ³	14.87c	15.11c	
Distribution (cps)	20.40c	20.00c	▪ In line with guidance. 5.53 cps paid from capital (cash reserves)

1. Borrowing expense was higher for three reasons

- borrowings increased by \$40m
- average all up interest rate reduced from 4.35% to 4.26% p.a.
- new issue completed two months in advance of repayment date (one-off)

2. Distributable Profit excludes non-cash accounting items – see full reconciliation to IFRS Net Profit.

3. 195.8 million securities were on issue as at both dates above

4. Rounding differences may arise



ALE's Property Portfolio

High Quality, Well Located and Development Potential



ALE's Property Portfolio

ALH Continues To Perform Strongly

ALH: Australia's largest pub operator

- ~ 330 licensed venues
- ~ 550 liquor outlets
- ~ 1,900 short stay rooms
- ALH is 75% owned by Woolworths and 25% by the Bruce Mathieson Group
- Woolworths is Australia's largest liquor retailer
- ALE owns 27% of ALH's operated venues

ALH FY17 Revenue

- \$4,256m
- Up 3.7% on pcp

ALH FY17 EBITDAR

- \$803m
- Up 13.1% on pcp
- 18.9% of revenue

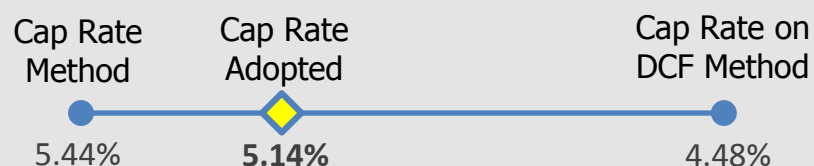




ALE's Property Portfolio

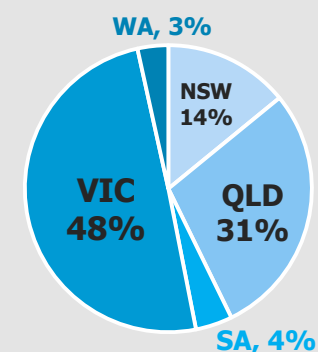
30 June 2017 Valuations

- Valuations increased by **\$89.6m** or around 9.10% during the year
- Average cap rate reduced from 5.53% to **5.14%**
- Directors valuations used current passing net rent and adopted capitalisation rates
- June 2017 independent DCF valuations of 33 properties provides higher valuations equivalent to a **4.48%** cap rate
- Valuer's adopted cap rates reflect a blend of cap rate and discounted cash flow (DCF) methodologies



Portfolio composition as at 30 June 2017

State	Properties	Value (m)	Average Value (m)	WACR*
NSW	10	\$149.5	\$15.0	5.08%
QLD	32	\$340.6	\$10.6	5.02%
SA	7	\$37.3	\$5.3	5.52%
VIC	33	\$521.5	\$15.8	5.16%
WA	4	\$31.3	\$7.8	5.96%
Total	86	\$1,080.2	\$12.6	5.14%



Geographic Diversity

* WACR: Weighted Average Capitalisation Rate



ALE's Property Portfolio

Three Layers of Value



Income

- 100% of the properties are leased to ALH, Australia's largest pub operator
- Long term triple net leases (83 of 86 properties)
- Properties of core strategic operating importance
- Properties have operated in current locations as pubs for more than 60 years on average



Future Income

Rents are expected to increase at market rent review dates, more materially at the uncapped review in 2028



Development Potential

- ALE's properties have a significant land value component
- More than 90% of the ~1 square kilometre of land owned by ALE is located in Australian capitals and major cities
- ALE and ALH continue to explore development opportunities together for mutual benefit
- Alternate use opportunities exist at some properties in the longer term



Case Studies – Property Development by ALH

Anglers Arms Hotel, Gold Coast, QLD



Before Development

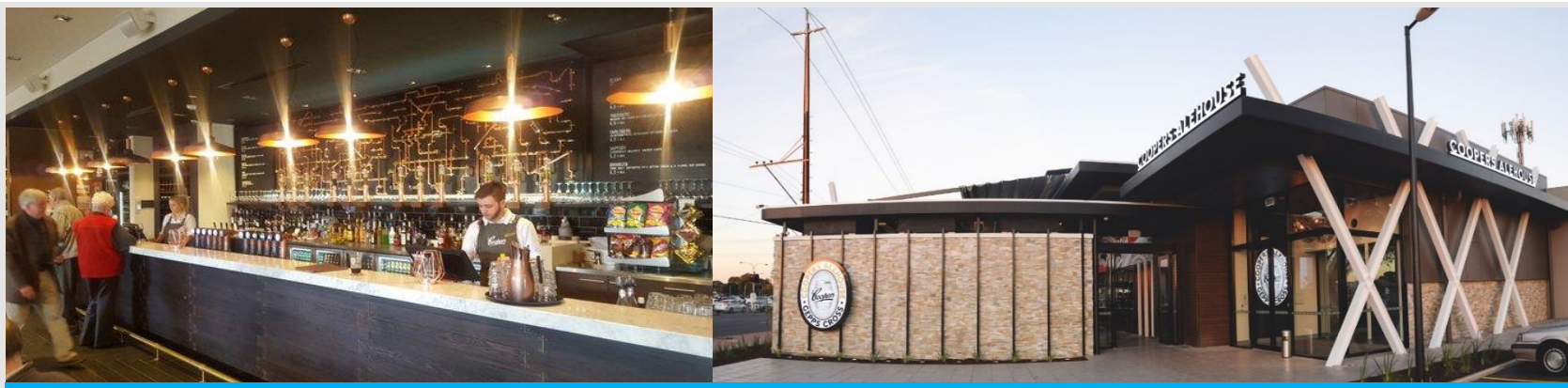
Completed Development

- Located in Southport, Gold Coast next to an existing light rail stop
- Acquired in 2003 for \$4.4m at a cap rate of 8.4%
- Hotel completely reconstructed and reopened June 2017
- New Dan Murphy's opened November 2016
- EBITDAR for ALH is expected to benefit significantly, positively underpinning ALE's future market rent
- One off fixed 10% rent increase already applied, from June 2017 reopening of hotel
- Annual CPI rent increases apply until next open market rent review in 2028
- Valued June 2017 at \$10.5m at a cap rate of 5.36%



Case Studies – Property Development by ALH

Gepps Cross Hotel, Adelaide, SA



Completed Development

- Located in the north eastern suburbs of Adelaide
- Acquired for \$2.2m in 2003 at a cap rate of 9.9%
- Substantially reconstructed and then reopened the hotel in May 2016
- ALH joined forces with Coopers Brewing to create Adelaide's first Coopers Alehouse
- EBITDAR for ALH is expected to benefit significantly, positively underpinning ALE's future market rent
- Market rent reviews apply in 2018 (10% cap and collar) and 2028 (open)
- Valued June 2017 at \$6.2m at a cap rate of 4.76%
- Recently obtained an approval to add a large format liquor barn with additional capital investment by ALH
- Awarded Best Redeveloped Metropolitan Hotel for 2017 in South Australia by AHA



Case Studies – Property Development by ALH

Accommodation – 428 Rooms



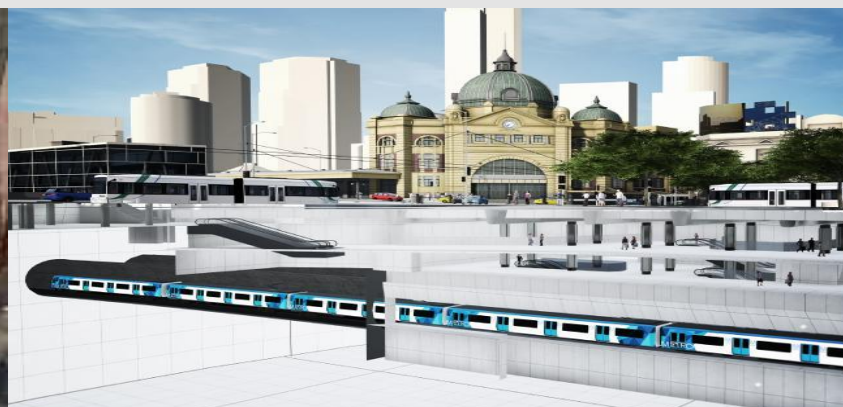
Reactivated Accommodation

- 428 rooms are currently offered across 24 of ALE's properties
- Significant reactivation of accommodation in recent years
- Large number of renovated and reopened rooms
- ALH currently operates around 1,900 rooms nationally
- Mostly three or four star short stay accommodation
- Positive for ALH's earnings
- While not yet material, accommodation provides additional food and beverage visitation
- Positive for ALE's future market rent prospects and property values



Case Studies – Melbourne Metro Rail Project

Young & Jackson Hotel, Melbourne, VIC



Young and Jackson Hotel

Melbourne Metro Rail Project

- Major metro rail project (circa \$6 billion)
- Significant addition to CBD passenger capacity
- New CBD South metro station to surround hotel
- Station access from both Flinders and Swanston Streets
- Significant additional pedestrian traffic
- Expected to be operational by 2026
- Rent continues to be payable during construction activities
- Continuing dialogue with Cross Yarra Partnership and MMRA





Capital Management



Capital Management

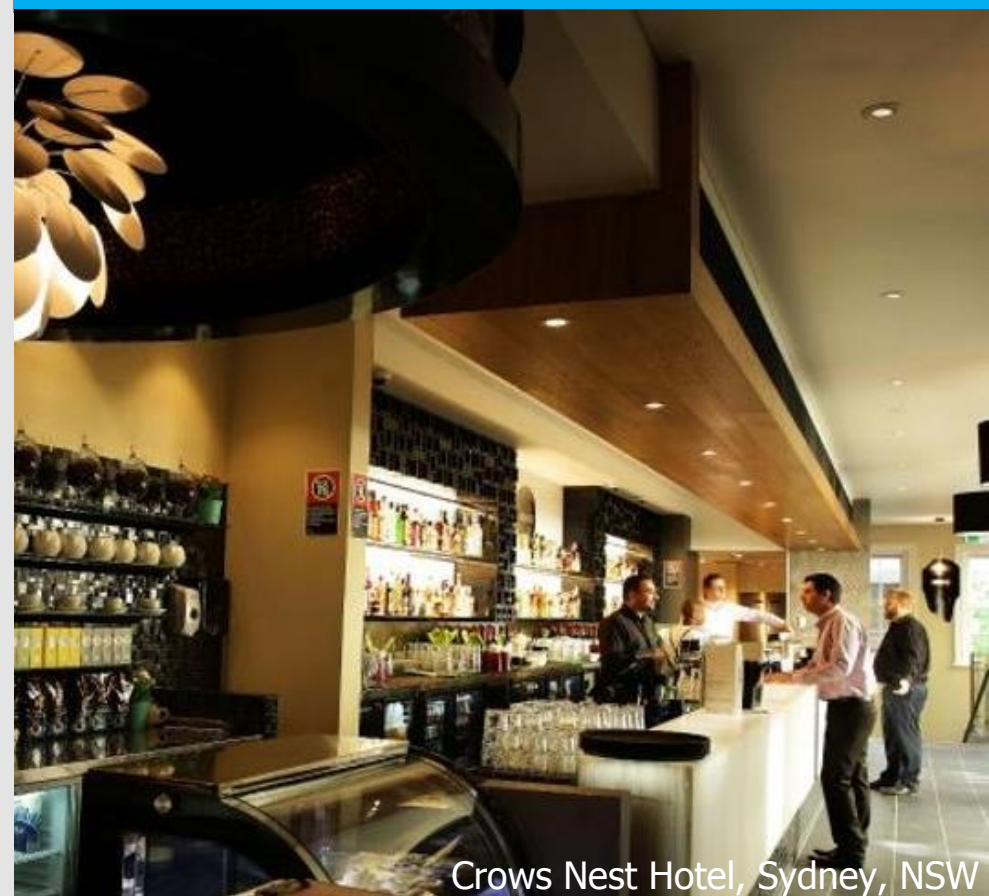
A Sound Debt Capital Structure

Capital management focus

- Managing refinancing and interest rate risk
- Growing securityholders' distributions

Capital structure with positive features

- Simplified debt capital structure
- Investment grade credit rating of Baa2 (stable)
- Significant headroom to all debt covenants
- Debt maturities diversified across next 6.4 years
- Base interest rates fully hedged for next 8.4 years
- All up fixed cash rate reduced from 4.35% to 4.26% p.a.
- Next debt maturity in August 2020



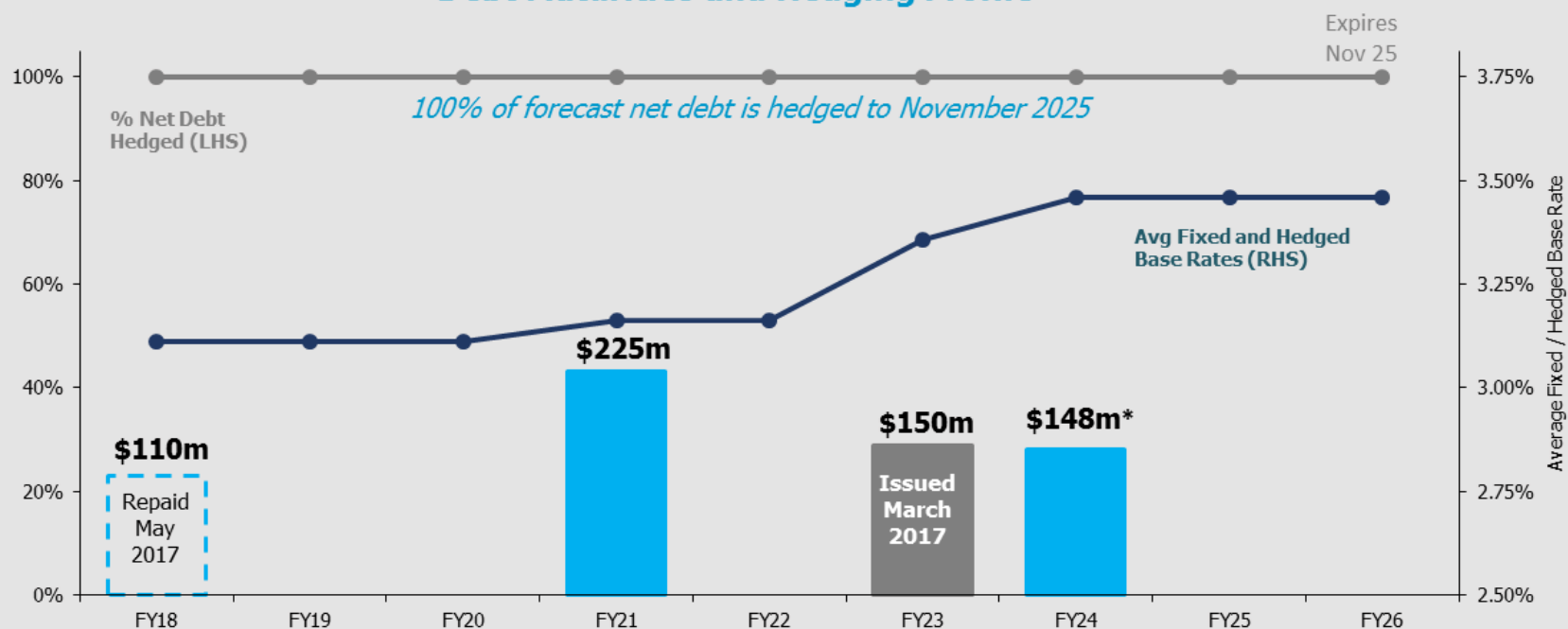
Crows Nest Hotel, Sydney, NSW



Capital Management

Diversified Debt Maturities And Long Term Hedging

Debt Maturities and Hedging Profile



* balance escalates with CPI



Note: Base interest rates exclude credit margins



Outlook and Strategy



Outlook

Certainty Of Earnings With Upside



Capital Management Certainty

- Interest expense currently fixed at an all up average cash rate of 4.26% p.a.
- Next debt maturity in August 2020



November 2017 Rent

- CPI increase for year to September 2017 is applied to the November 2017 rental increase
- Increases are VIC 2.20%, QLD 1.55%, NSW 1.90%, SA 1.85% and WA 0.83%
- Weighted average increase for 78 properties is 1.91%. Annual CPI reviews for eight other properties occur in other months



Rent Outlook

- November 2018 - market rent reviews for each property are capped and collared within 10% of the 2017 rent
- November 2028 - rent for each property is able to fully revert to market levels



Outlook

Certainty Of Earnings With Upside



November 2018 Reviews

- 74 properties will be reviewed to market. Four other properties have already had a 10% increase agreed
- Outcome will be driven by
 - individual hotels' earnings outlook
 - earnings results in the years leading up to reviews
 - market rent parameters
- On current earnings results, ALE is on solid ground for a positive outcome
- We do not expect that all the individual hotels will receive the full 10% rental uplift in November 2018
- Given that the total current rental income for all the properties is currently well below fair market rent for the significant majority of the hotels, we continue to anticipate a material increase at the uncapped 2028 rent review



ALE's Current Value Proposition

Quality



- High quality property portfolio
- Triple net leases to ALH, Australia's largest pub operator
- Long leases over strategically important property with terms averaging 11.3 years plus options
- Portfolio rent is substantially below market
- Potential opportunities from increased utilisation of the land
- Investment grade and low risk capital structure
- FY18 distribution yield of at least 4.4%¹

1. Based upon a security price of \$4.67 as at 30 June 2017 and FY18 distribution guidance of at least 20.40 cps plus CPI

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