360 Capital Group

22 August 2018

**360 Capital Group (TGP)**
**FY18 Results**

360 Capital Group (ASX: TGP) (the Group or 360 Capital) is pleased to announce its financial results for the financial year ended 30 June 2018.

During the financial year, the Group deployed a large portion of its cash into Asia Pacific Data Centre Group (ASX: AJD), an investment in a real estate asset class demonstrating strong fundamentals. As at 30 June 2018, the Group's 67.3% stake in AJD was worth $156.5 million.

The other main activity of the Group during the year was the launch and subsequent organic growth of our real estate credit business, AMF Finance Pty Limited (AMF). AMF is a joint venture between TGP and 360 Capital Total Return Fund (ASX: TOT).

The Group continues to diversify its capital sources to generate funds management and finance fee revenues as well as growing our revenue streams through co-investing. Our three key areas are:

- Public Capital – 360 Capital Total Return Fund (ASX: TOT)
- Private Capital – Partnerships / Platform Creation
- Debt Capital – Debt financing and management

**The Group's key achievements over the past twelve months to 30 June 2018:**

- Secured a 67.3% stake in Asia Pacific Data Centre Group (ASX: AJD) through a takeover deploying $142.2 million (now worth $156.5 million)
- Entered the real estate credit market by establishing AMF and settling or agreeing terms on over $100 million of debt investments through TOT
- Completed a $47.7 million capital reallocation including providing 7.97 cents per security in franking credits to securityholders
- Continued the disposal of unlisted securities to Centuria Capital Group (Centuria) with a further $13.6 million sold and $39.8 million to be settled
- Expanding our private client relationships as part of diversifying our capital sources to enable the Group to grow

**The Group's key financial results highlights for the financial year ended 30 June 2018:**

- Statutory net profit of $16.2 million, down 74.6% on $63.6 million in FY17 pcp
- Operating profit of $10.7 million, down 19.3% on $13.2 million pcp
- Statutory earnings per security (EPS) of 7.8cps, down 73.6% on 29.5cps pcp
- Operating EPS of 5.0cps, down 18.0% on 6.1cps pcp
- Distributions per security (DPS) of 5.5cps, down 15.4% on 6.5cps pcp
- NTA per security increased 2.1% from $0.95 as at 30 June 2017 to $0.97 per security
- Capital reconstruction completed increasing securityholders cost base by $0.21 per security and releasing 7.97 cents per security in franking credits

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**The Group is focused on rolling out its strategy of:**

1/ Real estate equity investment in sectors providing superior returns:

Excluding our residual interests managed by Centuria, the Group has two equity investments totalling $174.8 million. These interests are comprised of a 23.7% interest in 360 Capital Total Return Fund and a 67.3% interest in Asia Pacific Data Centre Group.

TGP has exposure to the Group's real estate credit activities through its $18.6 million investment in TOT. During FY18, TOT committed or deployed the majority of its capital into real estate credit activities and now has a loan book of $111.0 million. As a result of these activities, TOT is forecasting its FY19 distribution at 12.0 cents per security, which is a 33.3% increase of FY18.

The Group has also invested in the data centre sector. In May 2017, the Group made an initial 19.9% investment in AJD and subsequently made a full cash takeover. At the close of the takeover, the Group owned a total of 67.3% of securities on issue. This interest has a total value of $156.5 million as at 30 June 2018.

The AJD portfolio comprises 3 data centres located in Sydney, Melbourne and Perth all leased to NEXTDC Limited on triple-net leases with a weighted average lease expiry of 10.3 years. AJD has low gearing of 9.2%.

Post the takeover by 360 Capital, NEXTDC called a securityholder meeting to wind up the Trust of AJD. The Group has initiated proceedings in the Supreme Court of NSW seeking a declaratory relief that it is entitled to vote on a windup. The Group is awaiting the result of these hearings.

We note that AJD announced it has conducted a strategic review of its operations and market positioning in the data centre industry and may consider expanding its activities to include developing and operating data centres. The Group is supportive of this strategy given growth opportunities available in the data centre sector, AJD's current inefficient balance sheet, and the potential re-rating through AJD becoming an active participant in the Asia Pacific data centre market.

2/ Real Estate Debt Investment

Given the Group's views on the market for traditional direct ownership of real estate assets in Australia, the Group is focused on expanding into real estate credit activities. With APRA continuing to place restraints on the Australian banks' capital allocation to certain property sectors, the Group sees real estate debt investment as a strong growth area.

The Group is targeting to be a major participant in lending within the Australian commercial real estate marketplace and expects these activities to be a major contributor to revenue growth for the Group through establishment fees, management fees, and direct return from co-investment with its partners and TOT.

During the year, the Group activated its real estate credit activities through AMF, the Group's joint venture with TOT. AMF has originated $111.0 million in loans, all of which have been funded through TOT to-date. The loans are typically senior first mortgages between $5.0 million to $35.0 million generating an investment return of (IRR) between 12%- 17% p.a. AMF receives all establishment fees (typically 2% of the total loan facility) from the lending activities. AMF's pipeline continues to grow, driven by AMF's broker accreditation program, direct developer relationships, and the Australian banks seeking to "partner" with institutional non-bank capital.

The Group has also been developing a new listed first mortgage fund. The fund's mandate is to blend both first-mortgage investment loans and first-mortgage development loans to provide regular monthly distributions to investors. The Group has now proven up its development deal flow through AMF and has access to a very large commercial real estate loan book of term debt loans. Current listed capital markets conditions make an IPO on the ASX difficult at this time, as yield expectations have increased with competing (but riskier) products. We continue to monitor the listed market; however, the Group is also exploring other avenues to establish this fund.

## 3/ Non-Core Investments

Centuria exercised a total of $13.6 million in call option units during FY18. The balance of these unlisted investments is under put and call options, totalling $39.8 million comprising:

- $20.3 million of units in Centuria 111 St Georges Terrace Fund, which is under a put and call option providing the Group with a 7.5% p.a. guaranteed return until its put option date (which has been extended to June 2019); and
- $19.5 million in Centuria Retail Fund, which is under a put and call option providing the Group with a 7.5% p.a. guaranteed return until its put option date in January 2019. Centuria have issued a notice of meeting to wind up this fund – this may result in the proceeds of the units (at the put option price) being paid prior to January 2019.

The Group has a further $4.2 million in Centuria Retail Fund which is not under a put option agreement, and the Group is supportive of Centuria's windup strategy, which will provide a defined realisation strategy for these units.

## 4/ Capital Sources

To fund the Group's growth, management continues to diversify its capital sources and now has access to the following sources of capital:

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| Public Capital | - | 360 Capital Group (ASX: TGP) |
| | - | 360 Capital Total Return Fund (ASX: TOT) |
| | - | 360 Capital Mortgage REIT (currently under consideration) |
| Private Capital | - | High net worth individuals |
| | - | Family offices |
| | - | Private equity – Australian and overseas institutional capital |
| Debt Capital | - | Strong relationships with Banks |
| | - | Growing network of overseas banks |
| | - | Private debt capital |

The Group has commenced diversifying its capital sources within the real estate credit sector, offering individual loans to high net worth investors through a series of unlisted funds.

Furthermore, the Group is working with several institutional clients on providing deal opportunities, and some groups are undertaking due diligence on loans currently being originated by AMF Finance.

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## Capital management

The Group entered a $20.0 million unsecured corporate facility for 2 years in September 2017 to partly fund the AJD takeover. The loan was fully drawn in November 2017. The Group is targeting to repay the facility by January 2019 using the proceeds of the options with Centuria.

In August 2017, the Group issued 12.5 million securities at $0.98 per security under a three-year employee security plan with a total shareholders return performance hurdle of 12% p.a. over the vesting period of 3 years. As part of this issue, the Group also provided staff with limited recourse loans for $12.3 million.

As a result of the Group's sale of the majority of its funds management business to Centuria, the Group undertook a capital reconstruction to rebalance the capital between the Trust and the Company. This reconstruction included a fully franked special dividend of 21.01 cps (franking rate of 27.5%) which allowed the release of 7.97 cps in franking credits and provided for a reinvestment of 21.01 cps to increase to securityholder cost base. The Group's capital structure rebalancing provided the Trust with the necessary capital base to carry out its strategy of making real estate debt and equity investments in line with the Group's growth strategy.

For the March and June quarter distribution, the Group turned on its DRP, raising a total of $2.8 million and issued 2.8 million securities. Following the issue of securities for the June 2018 distribution, the Group has a total of 229,895,899 securities on issue.

During the year, the Group paid corporate tax of $18.3 million, resulting from the $77.6 million profit in FY17 due to the sale of the management rights to Centuria.

## Key focus for FY19

- Roll out our real estate lending activities in AMF Finance to become a major real estate credit provider;
- Expand and diversify our capital sources to accommodate real estate lending growth;
- Increase the size of TOT's capital base to improve liquidity, and diversification of TOT's loan book and grow its earnings;
- Repaying the Group's $20 million debt facility to enable the Group to become debt free;
- Progress the Mortgage REIT;
- Support the growth plans outlined by AJD to improve the Group's returns from capital deployed into the data centre sector;
- Remain patient and diligent with our capital, continue to monitor opportunities, look at growing revenue streams without using TGP capital, and be opportunistic in our approach to creating value for our investors.

## Forecast FY19 Operating EPS and DPS

Given the uncertainty around AJD's exciting growth plans and the Group's significant exposure to AJD, coupled with AMF's strong pipeline, the Group will not be making earnings forecasts for FY19 until such time as revenue from these activities is more certain.

The distribution for September 2018 quarter will be 1.0 cent per security and the level of distribution will be reviewed thereafter. This level of distribution should not be read as a guide to the Group's FY19 earnings.

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More information on the Group can be found on the ASX's website at www.asx.com.au using the Group's ASX code "TGP", on the Group's website www.360capital.com.au, by calling the 360 Capital investor enquiry line on 1300 082 130 or emailing investor.relations@360capital.com.au

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***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 Group actively invests in direct property assets, property securities, real estate debt and various corporate real estate investments within Australian real estate markets on a private and public equity basis.

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