Australian Securities Exchange - Company Announcements Platform

Centuria Capital Group

Seeking to change the Board of Propertylink Group

20 September 2018

Centuria Capital Group (ASX: **CNI**) announces that it has lost confidence in the Propertylink Group (ASX: **PLG**) Board and is reluctantly seeking to requisition a meeting of PLG securityholders to renew the PLG Board for the following reasons:

- The PLG funds management platform has underperformed since listing;
- The PLG Board approved a strategy to excessively leverage PLG and attempt a hostile take-over of Centuria Industrial REIT (**CIP**) with PLG securities representing approximately 90% of the consideration (the **Proposal**);
- The PLG Board has put PLG in an unsustainable position having increased its pro forma look-through gearing (estimated increase to approximately 49%) to pre-GFC levels in order to acquire its stake in CIP;
- PLG failed to disclose to the market the amended financing terms entered into to facilitate the acquisition of its stake in CIP; and
- The PLG Board has also failed to disclose the impact on pro forma NTA (estimated at 13% negative impact) that PLG securityholders will suffer if the Proposal is successful.

CNI currently holds 22.9% of CIP units and, whilst it reserves its rights to change its intention, it is CNI's current intention **not to accept** into the Proposal. If circumstances or structural developments cause CNI to accept, then CNI will become PLG's largest securityholder with an 18.7% interest in PLG.

After careful consideration, CNI has determined that it has no option but to act in order to protect its interests as a substantial PLG securityholder, the interests of other PLG securityholders and the interests of CIP unitholders who have been offered PLG securities as consideration as part of the Proposal.

CNI has lodged requisition documents to replace the PLG Board, with a majority of the nominees being independent.

Background to the requisition

CNI is one of PLG's largest securityholders with a relevant interest of 10.9% in PLG.[1] Prior to CNI and CIP acquiring PLG securities in September 2017, the PLG security price had failed to trade above its IPO price of $0.89.[2]

Since CNI's friendly approach to the PLG Board in September 2017, CNI has remained a passive investor and has treated its investment in PLG as strategic. However, CNI is now concerned with the risks that the PLG Board has taken in relation to the acquisition of a 17.7% interest in CIP and subsequent approach to acquire 100% of CIP.

[1] As at 20/09/2018
[2] Source IRESS

Why is CNI seeking to requisition a meeting of PLG securityholders?

Reason	Description
CIP unitholders, of which CNI is the largest, are being drawn into PLG's ongoing issues	▪ Over the last 12 months, PLG has been unable to grow external AUM and generate recurring operating profits in its funds management business. Its underperformance in growing recurring revenues has been accompanied with increased operating expenses which has negatively impacted the recurring/core profitability of the funds management business ▪ PLG has relied on one off performance fees to generate a profit in the funds management business. We estimate that PLG's funds management platform incurred a \$1.9m loss in FY17 and \$6.3m loss in FY18 when adjusted for one-off performance fees[3] ▪ The PLG security price failed to trade above its IPO price of \$0.89 prior to CNI and CIP acquiring PLG securities in September 2017
Concern for strategic direction of PLG and financial risks associated the Proposal	▪ The PLG Board has committed to approximately \$130m in additional debt financing to acquire the CIP stake. This represents 21% of PLG's net tangible assets. PLG has failed to disclose to the market the amended terms of its debt financing despite its obvious materiality ▪ We estimate PLG has increased gearing to unsustainable levels since it acquired its 17.7% interest in CIP. We estimate pro forma look-through gearing to be approximately 49% as a result of the acquisition of the CIP stake ▪ If PLG does not acquire 100% of CIP, it is unclear how this debt is to be refinanced. PLG may be required to sell assets or undertake a heavily discounted equity raising to resolve this situation
PLG securityholders would suffer 13% NTA dilution on a pro forma basis and higher costs associated with an unrealistic synergy assumption	▪ It is estimated that the transaction is 13% dilutive to NTA for PLG securityholders on a pro forma basis. PLG has failed to disclose to the market the dilutive impact on PLG Securityholder's NTA[4] ▪ At 50.1% acceptances, PLG have stated an intention to change the responsible entity and manager of CIP to a PLG group member. There would be no savings for minority CIP unitholders ▪ Despite increasing its industrial AUM by approximately 88%, PLG has assumed no material increase in costs to run the \$1.0bn geographically diversified CIP portfolio ▪ In FY18, PLG securityholders were subject to corporate costs of approximately \$16m equating to a MER of approximately 91bps which is materially higher than the management fee paid to CNI to manage CIP[5]

[3] PLG funds management recurring FY18 EBITDA calculated as Investment Management Fee Income ($4.6 million in FY18) plus Property Management Fee Income ($4.0 million in FY18) and Property Acquisition Fee Income ($0.7 million in FY18) less Employee Benefits Expense ($10.4 million in FY18) and Other Operating Expenses ($5.1 million in FY18) as disclosed on page 38 of the PLG FY2018 Results Presentation released on 14/08/2018

[4] Assumes the Proposal is successful, CNI accepts into the Proposal and PLG acquires 100% of CIP

[5] PLG's MER is calculated as FY18 normalised operating costs of $15.9 million ($17.4 million reported expenses less $1.5 million of bonus expenses related to performance) divided by average AUM for FY18 of ~$1.7 billion

What resolutions has CNI proposed?

CNI is seeking to:

- remove Mr Peter Andrew Lancken, Mr Christopher John Ryan, Mr Stephen Lawrence Day, Mr Ian Farley Hutchinson, Mr Anthony Damien Ryan and Ms Sarah Kenny from office as a Director of Propertylink (Holdings) Limited; and
- replace each of these existing Directors with suitably qualified new directors.

The resolutions are for consideration by PLG securityholders at a general meeting which PLG must cause to be held no later than 21 November 2018 in accordance with the Corporations Act 2001.

CNI is not currently seeking to remove Mr Stuart Dawes as an Executive Director of Propertylink (Holdings) Limited.

Important information

For more important information, see the investor presentation which accompanies this announcement.

If you have any questions, please do not hesitate to contact us on (02) 8923 8923.

- Ends -

For further information, please contact:

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About Centuria Capital Group

Centuria Capital Group (CNI) is an ASX-listed specialist investment manager with $4.9 billion in assets under management. We offer a range of investment opportunities including listed and unlisted property funds as well as tax-effective investment bonds. Our drive, allied with our in-depth knowledge of these sectors and intimate understanding of our clients, allows us to transform opportunities into rewarding investments.

www.centuria.com.au

Centuria Capital Group

Investor Presentation

ASX:CNI | 20 September 2018

Summary

- Centuria Capital Group (**CNI**) is one of Propertylink Group's (**PLG**) largest securityholders with a relevant interest of 10.9% in PLG[1]
- CNI is a leading funds management business with $4.9bn of AUM and a strong track record in operating a profitable funds management platform
- CNI has lost confidence in the PLG Board and is reluctantly seeking to requisition a meeting of PLG securityholders to renew the PLG Board for the following reasons:
  1. The PLG funds management platform has underperformed since listing because:
     - PLG did not meet the external AUM growth forecasts outlined in the PLG's IPO Prospectus & PDS
     - PLG's funds management platform lost $6.3m[2] in FY18 once one-off performance fees are excluded
     - Prior to CNI and Centuria Industrial REIT (**CIP**) acquiring PLG securities in September 2017, the PLG security price had failed to trade above its IPO price of $0.89, reaching a low of $0.68 (approximately 25% decline) three months after listing[3]
  2. After failing to implement their stated strategy, the PLG Board have approved a proposal which excessively leverages PLG and attempts a hostile takeover of CIP, with PLG securities representing approximately 90% of the consideration (**the Proposal**)
  3. The PLG Board has put PLG in an unsustainable position having increased its pro forma look-through gearing (estimated increase to approximately 48%) to pre-GFC levels in order to acquire its stake in CIP[4]
  4. PLG failed to disclose to the market the amended financing terms entered into to facilitate the acquisition of its stake in CIP. The PLG Board has also failed to disclose the impact on pro forma NTA (estimated at 13% negative impact) that PLG securityholders will suffer if the Proposal is successful[4]
- CNI currently holds 22.9% of CIP units and whilst it reserves its rights to change its intention, it is CNI's current intention not to accept into the Proposal. If circumstances of structural developments cause CNI to accept, then CNI will become PLG's largest securityholder with a 18.7% interest in PLG
- After careful consideration, CNI had no option but to act in order to protect its interests as a substantial PLG securityholder, the interests of other PLG securityholders and the interests of CIP unitholders who have been offered PLG securities as consideration as part of the Proposal

1) As at 20/09/2018
2) PLG funds management recurring FY18 EBITDA calculated as Investment Management Fee Income ($4.6 million in FY18) plus Property Management Fee Income ($4.0 million in FY18) and Property Acquisition Fee Income ($0.7 million in FY18) less Employee Benefits Expense ($10.4 million in FY18) and Other Operating Expenses ($5.1 million in FY18) as disclosed on page 38 of the PLG FY2018 Results Presentation released on 14/08/2018
3) PLG closing price on 12 October 2016. Source IRESS
4) See slide 9 for pro forma to 30 June 2018 look-through gearing and NTA

Overview

We have lost confidence in the PLG Board and senior management

✗ **CIP unitholders, of which CNI is the largest, are being drawn into PLG's ongoing issues**	• Over the last 12 months, PLG has been unable to grow external AUM and generate recurring operating profits in its funds management business. Its underperformance in growing recurring revenues has been accompanied with increased operating expenses which has negatively impacted the recurring/core profitability of the funds management business[1] • PLG has relied on one off performance fees to generate a profit in the funds management business. We estimate that PLG's funds management platform incurred a $1.9m loss in FY17 and $6.3m loss in FY18 when adjusted for one-off performance fees[1] • The PLG security price failed to trade above its IPO price of $0.89 prior to CNI and CIP acquiring PLG securities in September 2017
✗ **Concern for strategic direction of PLG and financial risks associated the Proposal**	• The PLG Board has committed to approximately $130m in additional debt financing to acquire the CIP stake. This represents 21% of PLG's net tangible assets. PLG has failed to disclose to the market the amended terms of its debt financing despite its obvious materiality • We estimate PLG has increased gearing to unsustainable levels since it acquired its 17.7% interest in CIP. We estimate pro forma look-through gearing to be approximately 49% as a result of the acquisition of the CIP stake[2] • If PLG does not acquire 100% of CIP, it is unclear how this debt is to be refinanced. PLG may be required to sell assets or undertake a heavily discounted equity raising to resolve this situation
✗ **PLG securityholders would suffer 13% NTA dilution on a pro forma basis and higher costs associated with an unrealistic synergy assumption**	• It is estimated that the transaction is 13% dilutive to NTA for PLG securityholders on a pro forma basis. PLG has failed to disclose to the market the dilutive impact on PLG Securityholder's NTA[3] • At 50.1% acceptances, PLG have stated an intention to change the responsible entity and manager of CIP to a PLG group member. There would be no savings for minority CIP unitholders • Despite increasing its industrial AUM by approximately 88%, PLG has assumed no material increase in costs to run the $1.0bn geographically diversified CIP portfolio • In FY18, PLG securityholders were subject to corporate costs of approximately $16m equating to a MER of approximately 91bps which is materially higher than the management fee paid to CNI to manage CIP[4]

1) See footnote 2 on slide 2
2) Please see slide 9 for details on the pro forma PLG balance sheet calculations (including gearing and NTA)
3) Assumes the Proposal is successful, CNI accepts into the Proposal and PLG acquires 100% of CIP
4) PLG's MER is calculated as FY18 normalised operating costs of $15.9 million ($17.4 million reported expenses less $1.5 million of bonus expenses related to performance) divided by average AUM for FY18 of ~$1.7 billion

Reasons for requisitioning a meeting of PLG securityholders

CNI has lodged requisition documents to renew the PLG Board with a majority of the nominees being independent

Michael Figg

- Michael is currently a Director at Cerno Management Pty Ltd, an independent, diversified, Australian-based property group providing project delivery, property investment, property management, facilities management and property finance services. His experience covers investments via partnerships, complex joint ventures and listed property entities.
- Mike was previously the Managing Director of APG Management Ltd (1999 – 2002). In 2017, Michael acted as an independent non-executive director of CPF2L[1] for six months during the merger of Centuria Metropolitan REIT and Centuria Urban REIT.

Nicholas Collishaw

- Nicholas is currently a Non-Executive Director of Centuria Capital Group, after resigning from his previous role of 4 years as CEO – Listed Property Funds at Centuria Property Funds. Nicholas is a highly experienced commercial and industrial specialist with an acknowledged reputation in both the local and offshore REIT markets.
- Prior to this role, Nicholas held the position of CEO and Managing Director of Mirvac Group and successfully guided the business through the GFC and implemented a strategy of sustained growth for the Real Estate and Investment Company.

Ellis Varejes

- Ellis is a Director of Equity Trustees Superannuation Limited where he is Chair of the Audit Risk and Compliance Committee. In addition, Ellis is currently a Consultant at Centennial Property Group. His experience includes property industry and funds management, governance and risk, transactions, and corporate, commercial and tax law.
- Ellis' previous roles include Chief Operating Officer and Group Company Secretary of Abacus Property Group (2006 – 2016) and Partner at Abbott Tout (1997 – 2005).

Gregory Dyer

- Greg is currently Client Director Western Sydney at WSP, a leading engineering professional services consulting firm. Greg has extensive expertise in strategic planning, business transformation, corporate acquisitions, large deal negotiation, debt financing, capital raising and process improvement.
- Greg's previous roles include CEO of Parramatta City Council (2014-2018), Executive Director and CFO of Mirvac (2012-2013) and CFO of Mulpha Australia (2005-2012).

Evelyn Horton

- Evelyn is currently a Director of the Tasmanian Public Finance Corporation, the Motor Accidents Insurance Board and Mission Australia. Evelyn is also a member of the SMART Infrastructure Advisory Council and the Centuria Life Limited board.
- Evelyn has a Masters of Social Science in Economics from the National University of Singapore, and is a Fellow of the Australian Institute of Company Directors. She has 30 years executive experience in investment banking and government, and broad expertise in financial risk management and in governance.

M. James Green

- Jamie is currently the Managing Director of PrimaryMarkets Advisory and has 30+ years of experience in investment banking and private legal practice, having served as Head of M&A Advisory at Patersons Securities, Head of Corporate Finance at Austock (Phillip Capital) and Executive Director of KPMG's Corporate Advisory division.
- Jamie is a past President of the NSW Division of the Australian Institute of Company Directors (AICD) and was a Director of the AICD, Scott Corporation and Medical Channel.

1) Centuria Property Funds 2 Limited

Reasons for requisitioning a meeting of PLG securityholders

Comparing CNI and PLG funds management platforms

The CNI funds management business is a superior platform to PLG offering a number of advantages to investors, customers and partners

	CNI			PLG		
Track record	▪ 20 years track record in property funds management ▪ Significant activity across unlisted and listed platforms delivering high returns to investors – Grown AUM by ~$3.0bn since PLG listing[1] – Number of high profile successes including sale of 10 Spring Street for 35% investor IRR (pre tax, post performance fees) on disposal			▪ External AUM effectively at same levels as PLG IPO Prospectus & PDS (~$900m) despite forecasts that external AUM would grow to $1.5bn (see slide 8) ▪ Operating expenses continue to increase despite a reduction in external AUM. In FY17, operating expenses were $14.8m being 12% higher than forecast in the PLG IPO Prospectus & PDS. In FY18, operating expenses increased a further 18% to $17.4m		
Distribution network	**HNW**	**Listed**	**Wholesale**	**HNW**	**Listed**	**Wholesale**
	✓	✓	✓	×	×	✓
Enhanced customer solutions	**Facilities Mgmt.**	**Property Mgmt.**	**Leasing**	**Facilities Mgmt.**	**Property Mgmt.**	**Leasing**
	✓	✓	✓	×	✓	✓
	▪ National footprint with CNI managing 74 assets across 6 states and territories, 15 unlisted funds and 2 listed funds ▪ Significant in-house capability with ability to complete facilities / property management and leasing in-house			▪ Management of 57 assets primarily across NSW, VIC and QLD, 5 wholesale funds and no listed funds ▪ No in-house capability to provide facilities management services		
Profitability of manager (EBITDA $m)[2,3]	FY17: $13.5m	FY18: $18.0m		FY17: ($1.9m)	FY18: ($6.3m)	

1) Based on CNI disclosed AUM of $1.9 billion as at 30/06/2016 and AUM of $4.9 billion as at 30/06/2018

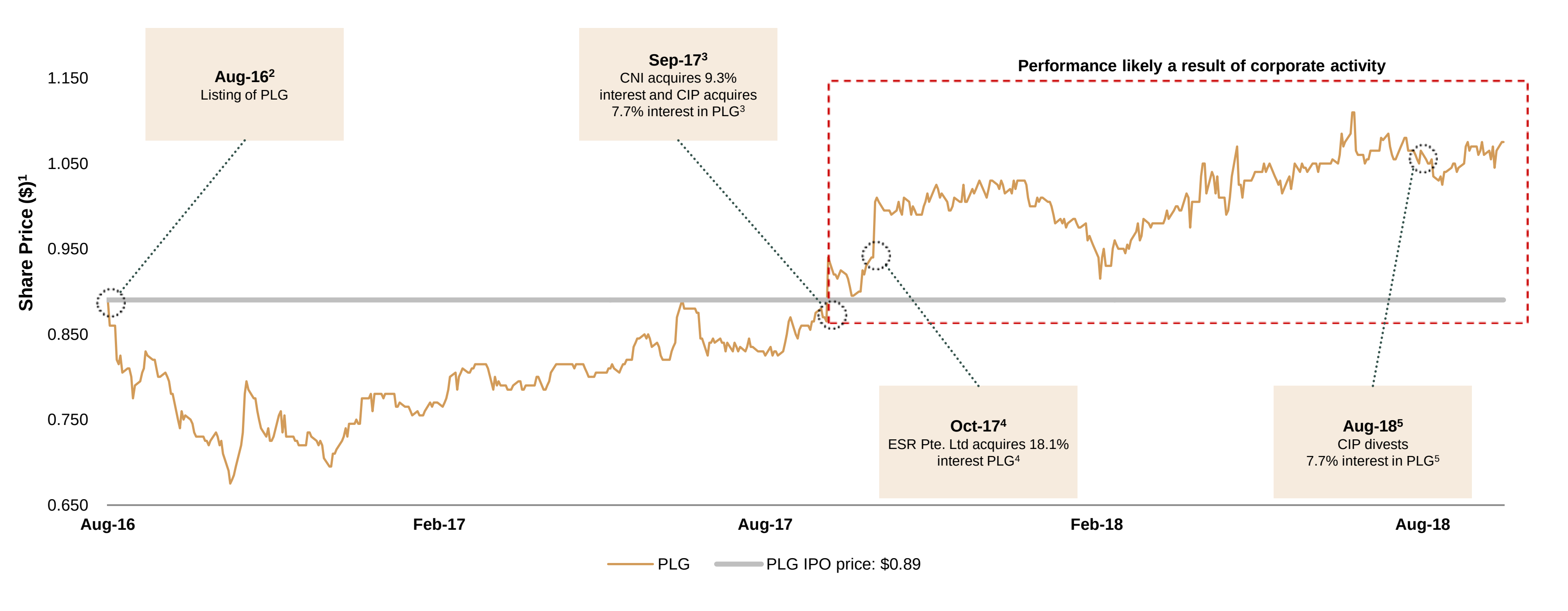
2) CNI FY18 management EBITDA is Property Funds Management operating profit ($22.2 million in FY18) plus Investment Bonds Management operating profit ($5.0 million in FY18) less Corporate Costs ($9.2 million in FY18)

3) See footnote 2 on slide 2

Reasons for requisitioning a meeting of PLG securityholders

Operational underperformance – PLG security price performance

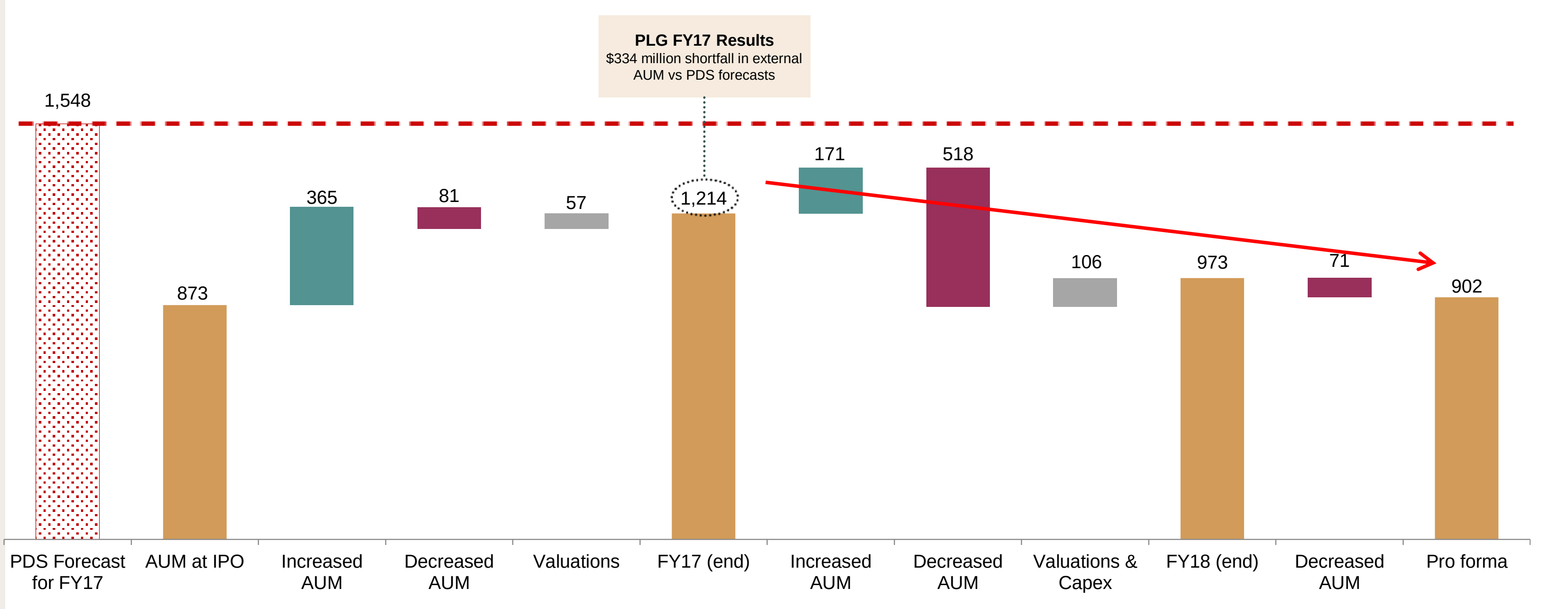
PLG failed to trade above its IPO price of $0.89 prior to CNI and CIP acquiring PLG securities in September 2017



1) Source IRESS
2) PLG Final IPO price of $0.89 per security as per ASX announcement on 5/08/2016
3) As per CNI ASX announcement on 8/09/2017
4) As per PLG ASX announcement on 4/10/2017
5) As per CIP ASX announcement on 10/08/2018

Operational underperformance – failure to meet external AUM growth forecasts

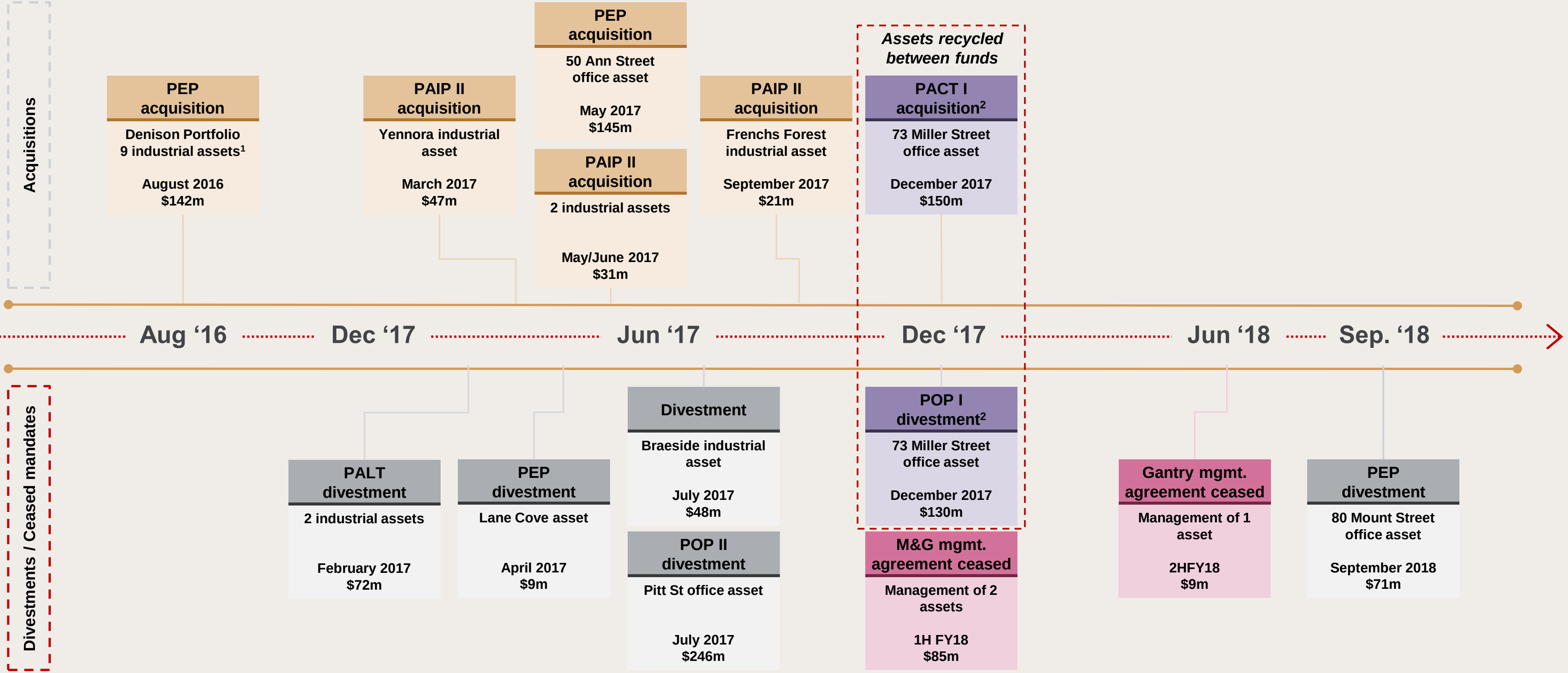
PLG has never reached its original PDS forecast of $1.5bn external AUM[1]



1) PLG AUM data sourced from PLG Prospectus & PDS (25/07/2016), PLG FY17 Investor Presentation (15/08/2018), and PLG FY18 Investor Presentation (14/08/2018), further reduced for the divestment of 80 Mount Street, North Sydney (announced on 13/09/2018)

PLG external AUM timeline

PLG has not acquired any new assets in its external funds over the last 12 months, with 2 mandates ceased and an asset divestment



1) PEP had entered into an option agreement to acquire the Denison Portfolio on 28/07/2017 (pre-IPO)
2) POP divested its 73 Miller Street asset into a new PLG managed fund, PACT I (announced on 18/12/2017)

Significant increase in indebtedness from acquisition of CIP stake

PLG's board has allowed management to increase leverage excessively to pursue the Proposal

Commentary

Indebtedness buying the CIP stake:

- We calculate PLG's pro forma gearing has increased to 41.4% gearing versus 29.6% gearing disclosed in the FY18 Results Presentation
- Our analysis indicates that pro forma look-through gearing has increased to 48.9% post the acquisition of the CIP stake

If the Proposal was successful and PLG acquired 100% of CIP:

- We estimate that pro forma gearing will increase to 46.5% and pro forma look-through gearing will increase to 48.4% prior to any uncertain asset sales[5]
- Additionally, we estimate that PLG's pro forma NTA will materially decline by approximately 13% to 90 cents per PLG security

PLG Pro Forma Balance Sheet

Balance sheet		PLG FY18	Pro forma Adj.[2]	PLG Pro forma	CIP Stake Adj.[3]	Post CIP Stake	CIP FY18[4]	Trans Adj.[5,6]	Post 100% CIP
Cash	[$m]	17.2	-	17.2	-	17.2	21.2	-	38.4
Receivables	[$m]	3.4	-	3.4	-	3.4	3.6	-	7.0
Other current assets	[$m]	2.4	-	2.4	-	2.4	-	-	2.4
Investment properties	[$m]	696.2	-	696.2	-	696.2	1,014.9	-	1,711.1
Equity accounted investments	[$m]	100.9	-	100.9	131.7	232.6	-	(131.7)	100.9
PP&E	[$m]	113.1	-	113.1	-	113.1	-	-	113.1
Intangibles	[$m]	4.6	-	4.6	-	4.6	10.5	98.6	113.7
Other non-current assets	[$m]	4.7	-	4.7	-	4.7	13.3	-	18.0
Total assets	**[$m]**	**942.6**	**-**	**942.6**	**131.7**	**1,074.3**	**1,063.5**	**(33.1)**	**2,104.7**
Payables	[$m]	19.3	(8.6)	10.7	-	10.7	21.4	-	32.1
Other current liabilities	[$m]	2.9	-	2.9	-	2.9	-	-	2.9
Borrowings	[$m]	288.7	30.9	319.6	131.7	451.3	398.4	94.0	943.6
Other non-current liabilities	[$m]	0.4	-	0.4	-	0.4	-	-	0.4
Total liabilities	**[$m]**	**311.2**	**22.3**	**333.5**	**131.7**	**465.2**	**419.8**	**94.0**	**979.0**
Net tangible assets	[$m]	626.8	(22.3)	604.5	-	604.5	633.2	(225.7)	1,012.0
No. securities	[#m]	602.8	-	602.8	-	602.8	-	517.5	1,120.2
NTA / Unit	**[$]**	**1.04**		**1.00**		**1.00**			**0.90**
Change	*[%]*			(3.6%)		(3.6%)			(13.1%)
Gearing[1]	*[%]*	*29.6%*		*33.0%*		*41.4%*			*46.5%*
Look-through gearing[1]	*[%]*	*34.9%*		*37.9%*		*48.9%*			*48.4%*

1) Gearing calculated as net debt to total tangible assets. Look-through gearing adjusted for cash and debt in equity accounted investments
2) Adjustment made for final FY18 PLG distribution of 3.70 cents per security declared on 14/08/2018 and paid on 4/09/2018 and assumed debt funding for settlement of vacant land for $8.6m
3) PLG acquisition of 44,046,681 units at $2.99 per unit as reported in initial substantial holder announcement on 14/09/2018 is assumed to have been debt funded
4) CIP post-reporting adjustments made for the divestment of PLG stake for $46.3m and acquisition of 616 Boundary Road, Richlands, QLD for $15.9m as announced on 10/08/2018
5) Transaction assumes $0.33 cash per unit ($67.4m) to be debt funded, $11.6m of concessional stamp duty and reasonable transaction costs of $15.0m
6) Goodwill represents the premium to NAV that PLG is paying for the CIP portfolio. Goodwill is subject to impairment testing and may be written off on revaluation of the CIP portfolio

Questions PLG has failed to answer

We believe that the PLG Board should address a number of concerns regarding its current operations and the risks associated with PLG in attempting to execute the Proposal

Specific Proposal Questions	
PLG's indebtedness	• What are the amended terms of the debt facility? • How are you comfortable with the level of look-through debt given it is in excess of 49%? • How does the financing get refinanced in the event the Proposal is not successful?
Negative financial impact of the Proposal	• Why do you think it's acceptable to dilute NTA by approximately 13%? • How are the cost savings of $7m achievable when historically corporate costs have been materially increasing despite a reduction in AUM? • Will their be a negative impact on asset level performance given a 100% increase in industrial AUM without a corresponding increase in staffing? • Why are you comfortable that you are sufficiently resourced to manage the portfolio? If so, were corporate costs excessive previously?
No details provided on asset sales	**$75 million of unexplained asset sales at 50.1% acquisition of CIP** • Which assets within the CIP portfolio are identified for sale? • As CIP is a separately listed entity, we do not understand how the sale of CIP assets would reduce gearing in PLG. In order to reduce its gearing, is PLG planning to strip cash proceeds from the asset sales in CIP and return capital or pay a special distribution to CIP unitholders? • What are the tax implications for any asset sale for CIP unitholders? • Will minority investors in CIP suffer from lower EPU under the proposed asset sale program? **$160 million of unexplained asset sales at a 100% acquisition of CIP** • Why do you think its appropriate to sell approximately 15% of CIP's portfolio if you acquire 100% of CIP? • Which assets are identified to be sold and what impact will this have on the portfolio composition? • What happens if the assets are unable to be sold? • What pricing has been assumed for any asset sales?