ALE Property Group

31 December 2018 Half Year Results

ALE PROPERTY GROUP

The Breakfast Creek Hotel, Brisbane

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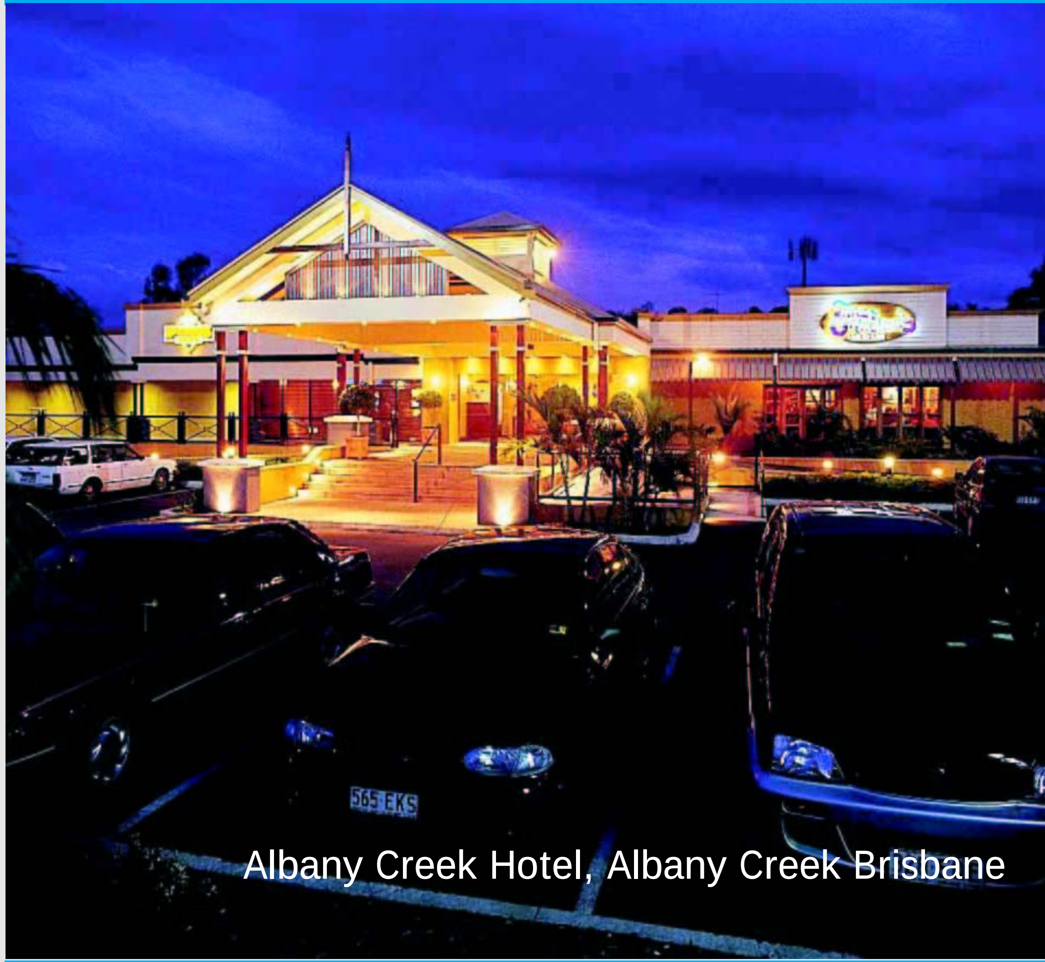


Albany Creek Hotel, Albany Creek Brisbane

Group Highlights

Half Year to 31 December 2018

Property Portfolio	Capital Structure	Equity Performance
$1,136.3m Statutory property values	**41.6%** Net gearing	**$14.0m** Distributable profit
5.19% Average property yield	**3.6 years** Average debt maturity	**10.45 cps** Distribution
9.8 years Weighted average lease expiry	**6.9 years** Hedge maturity	**79.45%** Tax deferred distribution
2.8% Income growth	**4.26%** All up cash interest rate	**$953.5m** ASX market capitalisation
100% Occupancy	**Baa2** Investment grade rating	**13.0% 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 and tax deferred distribution are for the half year ending or as at 31 December 2018.

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

Half Year to 31 December 2018

Boundary Hotel, East Bentleigh, Melbourne

Financial and Property Highlights

Half Year to 31 December 2018

Profit

- Distributable profit of **$14.0m**
- Net profit after tax (IFRS) of $5.6m

Distributions

- Half year distribution of **10.45 cps**
- Up 1.0% on previous corresponding period (pcp)
- 79.45% tax deferred

Outperformance

- 2003 IPO investment in ALE of $1.00 has accumulated value at 31 December 2018 of $16.32 or a total return of 20.3% p.a.
- Outperformed AREIT 300 Index for all periods including 1, 3, 5, 10 and 15 years since IPO

Property Revenue of $29.7m

- Up $0.8m or 2.8%
- 4.26% increase in average passing rent driven by 10% increases for 34 properties from November 2018. 45 properties remain in a determination process

Property Valuations $1,136.3m

- Valuations unchanged from June 2018
- Valuers' general view of values, rents and capitalisation rates for pubs unchanged
- Resulting average yield of 5.19%, in line with 10% rent increase for 34 properties and unchanged property values

Award

- First place in BDO AREIT survey for FY18
- Fourth consecutive year in top three places

Distributable Profit

Half Year to 31 December 2018

Millions	Dec 18	Dec 17	Comments
Revenue from properties	**$29.6**	$28.9	▪ Driven by rent increases of 10% for 34 properties from Nov 2018
Other revenue	**$0.4**	$0.5	▪ Lower cash balances and lower interest rates
Borrowing expense [1]	**$11.1**	$11.1	▪ Fixed interest rates on 100% of debt
Management expense	**$3.5**	$2.6	▪ Includes $1.3m of one-off costs associated with rent reviews
Land tax expense	**$1.5**	$1.2	▪ Land tax for QLD properties only at an increased rate
Distributable Profit [2]	**$14.0**	$14.6	▪ Impacted by (one-off) rent reviews expenses and land tax
Distributable Profit (cps) [3]	**7.16c**	7.48c	
Distribution (cps)	**10.45c**	10.35c	▪ 3.29 cps paid from capital and cash reserves

1. Borrowing expense unchanged with average all up interest rate remained constant at 4.26% p.a.
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

Net Profit (IFRIS) and Distributable Profit

Half Year to 31 December 2018

Millions	Dec 18	Dec 17
Total Revenue	**$30.0**	$29.4
Total Other Income (Including fair value increments)	**$-**	$20.4
Total Expenses (Including fair value decrements)	**($24.4)**	($20.0)
Income tax expense	**($0.0)**	($0.0)
Net Profit after income tax (IFRS) (Primarily impacted by derivatives decrements)	**$5.6**	$29.8
Add back non cash items:		
Fair value decrement/(increments) to investment properties	**$0.3**	($20.4)
Fair value decrements to derivatives	**$6.4**	$3.8
Employee share based payments	**$0.1**	$0.1
Non-cash finance costs	**$1.5**	$1.4
Income tax expense	**$0.0**	$0.0
Distributable Profit*	**$14.0**	$14.6

ALE has a policy of paying distributions subject only to an amount not less than the taxable income of the trust under the Trust Deed. Distributable Profit is a non-IFRS measure that shows how free cash flow is calculated by ALE and hence how distributions are determined. Distributable Profit excludes items such as unrealised fair value (increments)/decrements arising from the effect of revaluing derivatives and investment property, non-cash expenses and non-cash financing costs. The reconciliation between Operating Profit before Tax and Distributable Profit has not been audited or reviewed by KPMG. Rounding differences may arise in the above table.

* Rounding differences may arise

Pub Property Portfolio

High Quality, Well Located and Development Potential

Pub Property Portfolio

ALH Continues To Perform Strongly

ALH: Australia's largest pub operator

- ~ 330 licensed venues
- ~ 550 liquor outlets
- ~ 2,000 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 26% of ALH's operated venues
- ALH itself owns around 45 pub properties

ALH FY18 Revenue

- $4,442m
- Up 4.4% on pcp

ALH FY18 EBITDAR

- $855m
- Up 6.5% on pcp
- 19.2% of revenue

Source: ALH accounts

Rent Reviews

Rent determinations

Rent Reviews

- Rents may increase or decrease by up to 10% for individual properties
- 10% rent increases for 34 properties agreed
- Independent expert determination of rents for remaining 45 properties to be considered following submissions made in February 2019
- Total passing rent is materially less than ALE's view of uncapped rent
- Extent of the difference between passing and uncapped rent is not evenly spread across portfolio
- Given large number of properties involved, the determinations are expected to be made during the next financial year
- Rent review determination results are back dated to November 2018

Rent Reviews

Rent Reviews and Lease Renewals

Hotel	Next Rent Review Date	Rent* ($m)	Next Renewal Date	Renewal Term (Years)	Lease Type, Review and Renewal Details **
Berwick, VIC	Jun 2018	1.20	Jun 2028	10	Standard lease. In progress
42 Hotels	Nov 2018	28.45	Nov 2028	10	42 standard leases. In progress
Pelican Waters, QLD	Dec 2018	0.50	Dec 2028	10	Standard lease. In progress
Four Mile Creek, QLD	Dec 2018	0.46	Dec 2028	10	Standard lease. Minimum ratchet and maximum 10%. In progress
Noosa Reef, QLD	Jun 2019	0.72	Jun 2029	10	Standard lease
Brass Monkey, WA	Jun 2020	0.59	Jun 2020	5	Minimum ratchet and maximum open
Pritchard's, NSW	Sep 2020	1.78	Sep 2020	10	Increase at fixed 3%
Balmoral, WA	Feb 2023	0.51	Feb 2023	5	Greater of CPI and 7% of Turnover as maximum open
Burleigh Heads, QLD	Nov 2023	0.80	Nov 2033	10	Standard lease
Narrabeen Sands, NSW	Jun 2024	0.82	Jun 2034	10	Standard lease
Anglers Arms, QLD	Nov 2028	0.64	Nov 2028	10	Standard lease. Increase of 10% occurred June 2017
34 Hotels	Nov 2028	24.40	Nov 2028	10	34 standard leases. Increase of 10% agreed. 2 pre-agreed
Total Rent		**60.87**			

* December 2018 rent amounts before deducting land tax for QLD properties. ** Standard leases review to market between Jun 2018 and Jun 2024 and may increase or decrease by up to 10% from preceding year's rent. The first of four 10 year options for ALH to renew occur between 2028 and 2034. Three non-standard leases relate to Balmoral, Brass Monkey and Pritchard's.

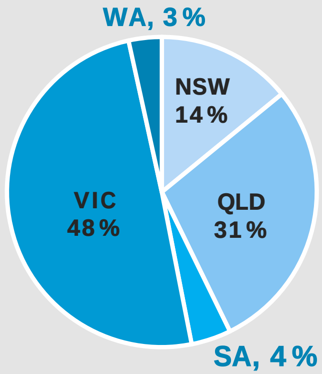
Pub Property Portfolio

31 December 2018 Valuations

- 4.26% increase in passing net rent to $58.97m was driven by a 10% increase for 34 properties. Rents for 45 other properties remain unchanged pending outcome of the determination process
- Independent valuers agree it is not unreasonable for the Directors to adopt the same individual valuations that prevailed at June 2018 given that:
  - 10% increase in rents for 34 properties was anticipated by valuers at June 2018
  - valuers' expectations of rent for all other properties have not altered since they were valued at June 2018
  - demand for investment properties leased to high grade tenants remains strong
  - valuers' general view of pub property values, pub rents and underlying capitalisation rates for comparable properties remain substantially unchanged
- Resulting weighted average yield has increased from 4.98% to 5.19% as passing net rents increased and property values remained unchanged

Portfolio composition as at 31 December 2018

State	Properties	Value (m)	Passing Net Rent (m)	Resulting Yield*
NSW	10	$156.4	$8.3	5.29%
QLD	32	$361.4	$18.3	5.07%
SA	7	$40.8	$2.1	5.20%
VIC	33	$546.0	$28.3	5.18%
WA	4	$31.7	$2.0	6.22%
Total	**86**	**$1,136.3**	**$59.0**	**5.19%**



Geographic Diversity

Geographic percentages represent book values in each State

* Resulting Yield: Weighted average yield, being the passing net rent divided by value

Pub Property Portfolio

Layers of Value

Current Income

- 100% of the properties are leased to ALH, Australia's largest pub operator
- Long term triple net leases (83 of 86 properties)
- Properties operating in current locations as pubs for an average 60+ years

Future Increases In Income

- 2028 provides opportunity for open and uncapped review of rents

Potential Long Term Value

- 95 hectares of land
- 90%+ of the properties are located in capital or major cities
- Strategically important sites for ALH
- Mixed and alternate use opportunities exist in the longer term

History of Property Development

Development for mutual benefit

Redeveloped Hotels **Additions of Dan Murphy's**

- Development highlights across 86 properties over the past 15 years
    - 10 substantial reconstructions
    - 24 significant refurbishments
    - 23 Dan Murphy's additions
- In addition, regular maintenance obligations exist for ALH
- Significant development expenditure and earnings accretion for ALH
- All earnings from all activities are included for rent review purposes, irrespective of the funding source for the additional leasehold improvements

Capital Management

Hamilton Hotel, Hamilton, Brisbane

Capital Management

A Sound Debt Capital Structure

Capital management priorities

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

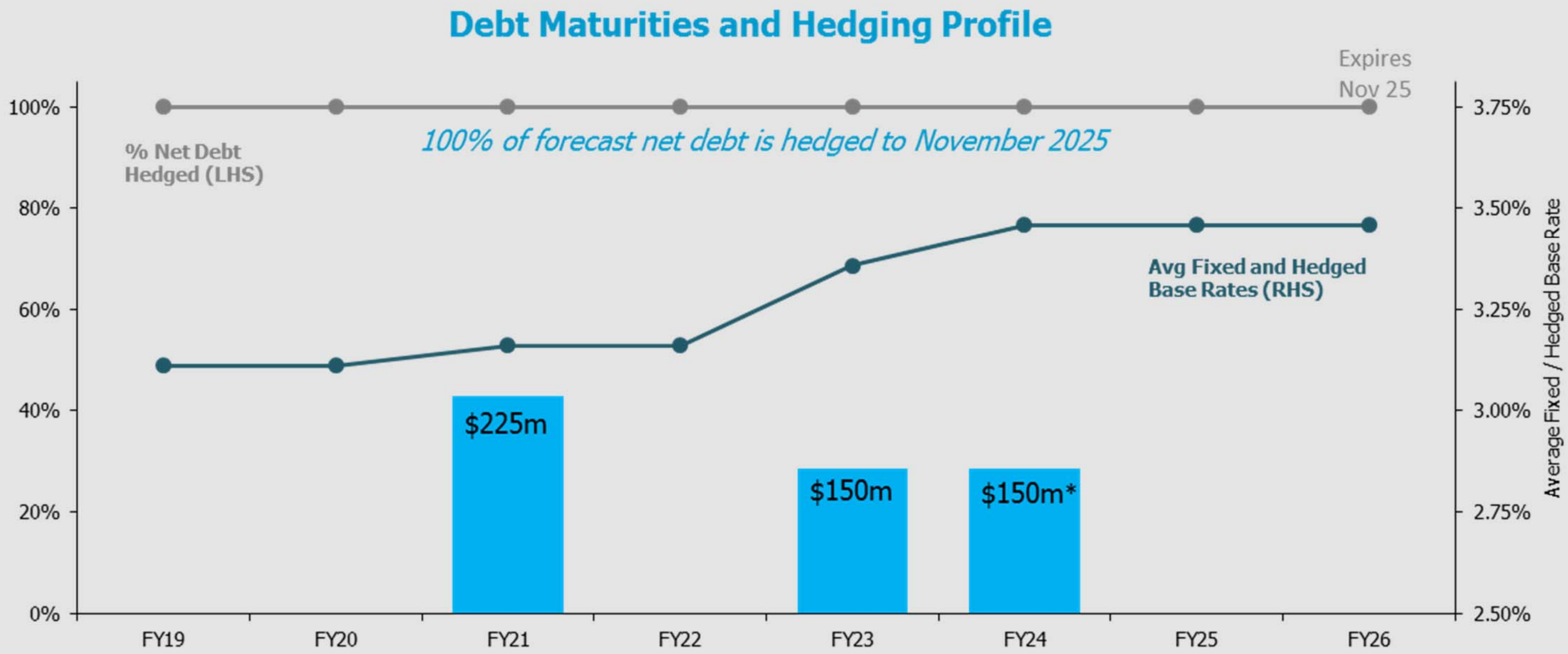
Capital structure with positive features

- Investment grade credit rating of Baa2 (stable)
- Next debt maturity in August 2020
- Debt maturities diversified over the next 4.9 years
- 100% of forecast net debt hedged over the next 6.9 years
- All up cash interest rate of 4.26% fixed until August 2020
- Gearing at low of 41.6% (41.6% at June 2018)
- Interest cover ratio well above covenant level at 2.6 times

The Club Hotel, Ferntree Gully, Melbourne

Capital Management

Diversified Debt Maturities And Long Term Hedging



** balance escalates with CPI*

Note: Base interest rates exclude credit margins

Capital Management

December 2018 Debt Capital Structure

As at 31 December 2018

Debt Facility	Issue Rating	Face or Indexed Value (m)	Base Rate	Issue Margin	All Up Fixed Cash Rate	Scheduled Maturity	Remaining Term (Years)
AMTN (Unsecured)	Baa2	$225	3.50%	1.50%	5.00%	20 Aug 2020	1.7
AMTN (Unsecured)	Baa2	$150	2.50%	1.50%	4.00%	20 Aug 2022	3.7
CIB (Secured)	AAA / Aaa	$152	3.20%	0.20%	3.40%	20 Nov 2023	4.9
Total and Averages		**$527**	**3.13%**	**1.13%**	**4.26%**		**3.2**
Cash on Deposit		($38)					
Total Net Debt		**$489**					

- Base Rate for CIB is a real interest rate. The balance of the CIB escalates with CPI
- Debt amounts are gross and exclude reductions for any unamortised borrowing costs
- All up fixed cash rates apply until the AMTN and CIB maturity dates, after which the base interest rates are hedged until November 2025 on around 100% of ALE's forecast net debt amounts
- Fixed rate and forward start hedging facilities provide an average total hedging term of 6.9 years on 100% of forecast net debt
- Hedging facilities were $16.0m out of the money as at 31 December 2018
- Cash balance includes $8.4m for debt service reserve security, $20.5m for March 2019 distribution and $2.0m reserve for AFSL requirements

Capital Management

Substantial Covenant Headroom

Key Capital Management Metrics

- Substantial headroom to all debt covenants continues
- AMTN covenant defined gearing of 41.6% (June 18: 41.6%)
- Headroom to AMTN covenant of 60% gearing equates to:
  - 31% (approx.) reduction in property values
  - Expansion in average cap rate from current 5.19% to 7.56%
  - ALE's average capitalisation rates have not exceeded 6.57% since 2006
- Gearing covenant for AMTN of 60% relates to distribution stopper and 65% relates to default
- Interest cover ratio at 2.6 times compares favourably to AMTN covenant at 1.5 times

Outlook and Strategy

The Breakfast Creek Hotel, Brisbane

Outlook

Future income profile pending rent review

Rent Reviews

- 10% rent increases for 34 properties agreed
- Independent expert determination of rents for remaining 45 properties to be considered following submissions made in February 2019
- Given large number of properties involved, the rent review determinations are expected to be made during the next financial year
- ALE is confident of a positive result but may not necessarily receive a full 10% increase for all properties
- Rent review determinations are back dated to November 2018

Land Tax and Management Costs

- Rent review submission costs are expected to be at least $3.1m in FY19 (one off item)
- Increase in QLD land tax rate from 2.0% to 2.5% reduces FY19 earnings by around 0.33 cps

2028 Rent Reviews

- Open rent reviews apply. Full extent of the difference between passing and uncapped rent will be realised for each of the properties

ALE's Value Proposition

- National portfolio of 86 pub properties
- High quality pub properties mostly located in capital cities
- Triple net leases to ALH, Australia's largest pub operator
- Long term leases over strategically important property
- Weighted average lease expiry of 9.8 years plus four 10 year options to renew
- Investment grade and low risk capital structure
- FY19 half year distribution will be 79.45% tax deferred
- Distributions and capital management policy to be reviewed following completion of 2018 rent review

Note: Forecast FY19 tax deferred distribution is approximate only and assumes no material changes to property portfolio or capital structure

ALE Property Group

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