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ASX ANNOUNCEMENT
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Aspen Group Financial Results - FY19

Statutory loss of $7.92 million

Underlying profit per security up 8% to 5.15 cents and distributions per security up 19% to 5.00 cents
Net Asset Value of $1.13 per security

Aspen Group (which comprises Aspen Group Limited and the Aspen Property Trust) (ASX: APZ) ("**Aspen**") is pleased to provide its financial results for the year ending 30 June 2019.

Aspen achieved a statutory loss of $7.92 million for FY19. After adjusting for asset devaluations, transaction costs and other non-underlying items, Aspen achieved an underlying profit of $4.96 million.

Aspen's Business Model

Aspen provides quality accommodation on competitive terms in the retirement, residential and short stay sectors. We have a fully integrated platform across operations, asset management, development and capital management that enables us to provide a broad spectrum of products and services to our customers under different ownership schemes and regulatory regimes: Rentals – Shared Equity – Sales.

Aspen's target market is enormous. Australia's residential market is worth over $6.5 trillion and there is significant unsatisfied demand for suitable accommodation at below median prices and rents. 70% of households have either a mortgage (37%) or rent (33%). About half of the households that rent receive Commonwealth Rent Assistance or are in social housing[1]. We estimate that the total accommodation in our target market is worth over one trillion dollars.

Portfolio

Aspen's individual properties provide one, some or all of our accommodation products and services. We seek to maximise the profitability and value of the properties by optimising the customer mix based on demand, relative pricing and operating expenses, regulatory constraints (eg. zoning and licensing), capital costs and other factors.

The value of Aspen's portfolio increased by 20% to $128.04 million in FY19, mainly through the acquisition of Highway 1 Caravan & Tourist Park in Adelaide for $23.00 million on a cap rate of 9.25%. We also added new manufactured housing inventory at our Four Lanterns Estate in Sydney, which to date has cost about $6 million and achieved 30% development margin.

We recently contracted to acquire two properties that combine retirement and residential use at Lindfield on the north shore of Sydney for $8.65 million equating to only $206,000 per apartment. The low entry price enables us to provide quality accommodation to our customers on competitive terms, which helps maintain full occupancy and generate attractive investment returns through value-enhancing initiatives over time.

Aspen's portfolio is currently valued on a weighted average capitalisation rate (WACR) of 8.9% and an average of $65,000 per site including land and dwellings (including Lindfield Apartments).

1. Source: Australian Bureau of Statistics

New house and residents at Four Lanterns Estate

Lindfield Apartments

Operations

Conditions generally weakened in the markets in which Aspen operates over the past year.

Overall, in Australia's residential markets prices declined about 5-10%[2] on average and sales volumes fell due to various factors. Sentiment and sale activity have improved mildly post the federal election and the more recent reduction in interest rates.

Short stay markets (tourism and worker) continued to benefit from good growth in tourism demand. Austrade estimates that in the year to March 2019, overnight stays by domestic visitors grew at an impressive 10% and international visitor numbers grew around 3%, albeit from higher levels of growth. Total demand (by nights stayed) is estimated to have increased by 4% at commercial caravan parks, 10% at hotels, 12% at rented apartments/houses (eg. Airbnb), and 18% in privately owned holiday properties. However, in most major locations, total accommodation supply has increased materially, occupancy rates have declined, and operators have been reducing room rates in response. CBRE estimates that in the hotel segment, Australia-wide occupancy declined 1.7%, average room rate declined 0.3% and REVPAR declined 2% over the year.

In a nutshell, we believe Australia has solid long-term demand dynamics, but has overcapacity in the short term. This creates opportunities for Aspen.

In the context of this weaker environment, Aspen's operating performance for FY19 was reasonable. Owing mainly to acquisitions, total property net operating income was $11.23 million, an increase of 21% over FY18. Operating margin was 47% in FY19, slightly lower than the 49% achieved in FY18, partly due to the acquisition of the relatively low margin Darwin Freespirit Resort in FY18.

The performance of Aspen's individual properties was mixed:

- Our land lease communities, Four Lanterns Estate and Mandurah Gardens performed well with land rents growing in real terms and costs being well contained. Their combined operating income increased approximately 5%
- Tomago is being redeveloped from a short stay caravan park into a longer-term residential community and operating income declined 12% as a result
- Our South Coast NSW properties, Barlings Beach and Tween Waters, performed reasonably well with combined revenue up approximately 9%, however costs are higher than they need to be, and operating income was up only 6%
- Revenue and operating income were essentially flat at Koala Shores in NSW which was consistent with subdued demand across the region which is partly attributable to the drought and heavy advertising by tourism bodies for the competing South Coast of NSW
- Revenue and operating income declined approximately 5% at Adelaide Caravan Park from a strong FY18 that benefited from the Ashes Tour. Occupancy increased slightly, but there was a general shift towards lower priced caravan and camping sites
- Highway 1 performance was below budget in the initial months post purchase in October 2018, mainly due to a decline in worker activity in the area, however it has improved in recent months after the appointment of a new management team
- Darwin FreeSpirit Resort has performed below expectations since it was purchased in December 2017. This is mainly due to a large increase in hotel room supply in Darwin, the departure of a large corporate customer, patchy tourist demand possibly due to seasonal patterns, very disruptive park management changes and poor cost control. Recent performance

2. Sources: Australian Bureau of Statistics, APM, CoreLogic, RBA, Residex

has stabilised with the appointment of a new manager and a reduction in labour costs. The park's peak seasonal trading period is between June-September and it is has performed below its FY20 budget over the first 7 weeks of this financial year

- Aspen Karratha Village performed well with Woodside extending its lease for another 12 months to January 2021. Business activity is picking up in the Karratha region and our property offers very attractive product and service.

We believe there are ample opportunities to increase returns from Aspen's properties through more intensive management and by deploying capital across cost saving initiatives (eg. labour, power, water), refurbishment (eg. landscaping, facilities, cabins) and development (eg. new dwellings). In the last few months alone, we have moved forward on over $10 million worth of projects including an expansion of Tomago Village which will involve a rejuvenation of the community facilities and the addition of new dwellings that can be rented or sold under a land lease model on competitive terms.

Corporate overheads were $5.92 million on an underlying basis which was up 13% on FY18. This excludes $0.79 million of transaction costs associated with the changes of responsible entity (RE) and executive management team. The change of RE enabled Aspen to free up $9.85 million of low-yielding cash that was backing its RE licence and is now deployed in the business at higher returns. Upon the change in management, Aspen was given the right to manage Mill Hill Capital's two funds that are undertaking large scale accommodation projects. Aspen earns project management fees for this role which, together with recent cost reductions, is expected to deliver at least $0.75 million reduction in net overheads. Aspen's management platform has capacity to take on more properties and development activity and its management expense ratio (MER) is expected to reduce as the company grows.

Underlying EBITDA in FY19 was $5.89 million which was an increase of 16% on FY18.

Net interest expense in FY19 was $0.93 million. This was increased by $10 million in drawn debt that was required up to May 2019, whilst the same amount of cash was backing Aspen's RE licence. Despite this, Aspen also incurred line fees on the relatively high level of undrawn debt during the period.

As at 30 June 2019, Aspen Group Limited had accumulated income losses of $71.07 million and capital losses of $39.52 million from prior years that may be used to shelter income and capital gains in future years. As a consequence, a relatively high proportion of Aspen's distributions in the foreseeable future may be tax-advantaged. The ability to utilise these losses in future years is subject to tax legislation and the potential value of the deferred tax asset is not currently recognised on Aspen's balance sheet.

Underlying profit after tax in FY19 was $4.96 million, an increase of 4% on FY18.

The table below summarises Aspen's underlying profit and bridge to audited statutory profit and loss:

A$ - millions	FY19	FY18	% Change
Accommodation revenue	22.29	17.53	
Non-accommodation gross operating profit (F&B, other)	1.79	1.42	
Gross operating income	**24.08**	**18.95**	**+27%**
Operating expenses	(12.85)	(9.69)	
Net operating income	**11.23**	**9.26**	**+21%**
NOI margin	**47%**	**49%**	
Revenue from development activities (including churn)	1.69	0.51	
Cost of sales	(1.11)	(0.29)	
Development profit	**0.58**	**0.22**	**+164%**
Development margin (profit / revenue)	**34%**	**43%**	
Discontinued operations profit (loss)	**0.00**	**0.86**	
Operating and development net income	**11.81**	**10.34**	**+14%**
Corporate overheads	(5.92)	(5.25)	+13%
EBITDA	**5.89**	**5.09**	**+16%**
Net interest expense	(0.93)	(0.31)	+200%
Tax	0.00	0.00	
Operating profit (underlying)	**4.96**	**4.78**	**+4%**
Per security (cents)	**5.15**	**4.78**	**+8%**

Adjustments:		
Depreciation & amortisation	(2.61)	(1.74)
Asset revaluations	(9.33)	0.90
Transaction costs associated with change of RE/management	(0.79)	0.00
Transaction costs and other	(0.15)	(3.17)
Statutory IFRS net profit	**(7.92)**	**0.77**

Balance Sheet

As at 30 June 2019, Aspen had total assets of $141.73 million, gross debt of $24.50 million and net asset value of $108.77 million equating to $1.13 per security. Our capital position is strong with gearing of only 13.3% and access to capital from our customers (eg. in shared equity schemes, such as under the LLC model where residents own their houses) and fund investors.

The valuation of property assets declined over the year by $4.91 million ($4.33 million reduction in headline valuations plus $0.57 million in capital expenditure incurred on the properties). The Directors made the decision to reduce the carrying value of Darwin Freespirit Resort by $2.00 million (10%) to $17.50 million given its poor trading performance since acquisition. The external valuation of Tomago Village reduced by $2.25 million, reversing the increase from the prior external valuation in FY18. The new valuation is based on a cap rate range of 8.50-8.75% which we believe is attractive as a long stay rental / land lease community.

The table below summarises Aspen's balance sheet:

A$ - millions	30 June 2019	30 June 2018	$ Change
Total value of property assets	128.04	106.41	**21.63**
Cash	6.47	13.37	**(6.90)**
Other assets	7.22	8.13	**(0.91)**
Total assets	**141.73**	**127.91**	**13.82**
Financial debt	24.50	4.70	**19.80**
Other liabilities	8.46	8.28	**0.18**
Total liabilities	**32.96**	**12.98**	**19.98**
Net asset value	**108.77**	**114.93**	**(6.16)**
Total securities in issue	96.3	96.3	
NAV per security	**$1.13**	**$1.19**	
Gearing (net debt / total assets less cash)	13.3%	net cash	
Loan to value ratio (facility covenant is 50%)	16.4%	3.9%	
Interest cover ratio (facility covenant is 2.0x)	5.8x	9.7x	

Aspen's earnings and distribution guidance for FY20 remain unchanged at 6.75-7.00 cents and 6.00 cents per security respectively.

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