

ASX ANNOUNCEMENT

5 August 2020

**Announcement No. 13/20
The Manager
Australian Securities Exchange**

ALE Property Group FY20 Results

ALE Property Group (ASX: LEP), the owner of Australia's largest portfolio of freehold pub properties, today released its FY20 financial results.

Highlights

- Distributable profit of \$30.4 million, up 7.5% on pcg
- Statutory net profit after tax of \$20.0 million
- Full year distribution unchanged at 20.90 cents per security and will be 49.42% tax deferred
- Current passing gross rent increased 0.9% to \$61.04 million resulting from average rent increase of 1.7% for 43 of the 86 properties
- Weighted average adopted yield decreased marginally from 5.09% to 5.08%
- Directors' valuations of 86 properties increased by 0.9% to \$1,174.2 million following an independent assessment of 82 of the 86 properties
- Capital position remains strong with gearing at historic low of 41.3%
- Debt maturities are diversified over the next 3.4 years
- Rent review outcomes are expected to deliver a positive result
- Continuing to monitor impact of COVID-19 on ALE, the economy and the tenant's operations
- ALE's FY20 total return of +1.4% p.a. significantly outperformed the AREIT 300 index's FY20 total return of -21.1% p.a.
- 2003 investment of \$1.00 in ALE has an accumulated value of \$17.67 at 30 June 2020 or an annual total return of 18.9% p.a.

COVID 19

ALE notes the following with respect to the impacts of the spread of novel coronavirus (COVID-19):

- ALE's first actions were to ensure the wellbeing and safety of our staff. The Company implemented its Business Continuity Plan and staff were able to work from home with minimal impact on normal day to day operations.
- To date there has been minimal impact to operating performance and property values have been maintained at pre COVID-19 levels, showing resilience and the strength of the lease covenant.
- The COVID-19 pandemic has impacted market activity in many sectors in the economy and this has been particularly evident in the pub sector where trading restrictions have been put in place.
- Notwithstanding the uncertainty that the COVID-19 pandemic is currently having on property values, the valuation assessment undertaken by the Group indicates that demand still exists for prime assets secured by strong tenant covenants with long lease terms and yields are holding to pre COVID-19 levels.
- In the event that the impacts of COVID-19 become material or more prolonged than anticipated, and ALH does not continue to meet its rental obligations (being a key assumption underlying the valuations), this may have an adverse impact to the fair value of ALE's property portfolio.
- The Directors and management continue to monitor the situation closely and expect the year ahead to be challenging as the recovery from the effects of the pandemic, from a financial and community perspective, will be long lasting.

Results for Year Ending 30 June 2020

Millions	June 20	June 19	Change
Revenue from Properties	\$61.4	\$60.2	\$1.2
Other revenue	\$0.3	\$0.8	(\$0.5)
Borrowing expense	(\$22.0)	(\$22.2)	\$0.2
Management expense	(\$5.9)	(\$7.6)	\$1.7
Land tax expense	(\$3.3)	(\$2.9)	(\$0.4)
Distributable Profit ¹	\$30.4	\$28.3	\$2.1
Distributable Profit (cps)	15.53c	14.45c	1.08c
Distribution (cps)	20.90c	20.90c	-

The difference between the distribution and distributable profit for the period was paid out of capital and funded from existing cash reserves. Distributable profit excludes the non-cash accounting items including changes to investment property and derivative values.

Distributable Profit

A number of factors contributed to a distributable profit of \$30.4 million for the year to 30 June 2020:

- Property income increased by 2.0% to \$61.4 million due to rent increases resulting from average rent increase of 1.7% for 43 of the 86 properties;
- Borrowing expenses remained largely unchanged;
- Management expenses were materially lower due to a reduction in the costs incurred in FY19 relating to the preparation of rent review submissions for determination; and
- Land tax expenses increased based on increased land tax rates in Queensland.

The unchanged distribution of 20.90 cents per security will be 49.42% tax deferred.

Accounting Profit Result

ALE's reported net profit after tax (NPAT) of \$20.0 million for the year to 30 June 2020 includes non-cash adjustments to reflect the increases in the value of the property assets and interest rate derivative liabilities. The NPAT also includes other non-cash items including amortisation of pre-paid financing costs and Capital Indexed Bonds accumulating indexation. A full reconciliation of accounting profit to distributable profit has been provided in the Directors' Report.¹

Statutory Property Valuations

The statutory valuations increased by 0.9% to \$1,174.2 million at 30 June 2020 based on independent valuations conducted by CBRE and Savills on 82 of the 86 properties. Consistent with the stable market yields for pub properties, ALE's weighted average adopted yield reduced from 5.09% to 5.08%. The portfolio's passing net rent (or annualised net rent as at 30 June 2020), increased 0.8% during the year to \$59.6 million.

For further details please refer to the ASX Announcement made by ALE today.

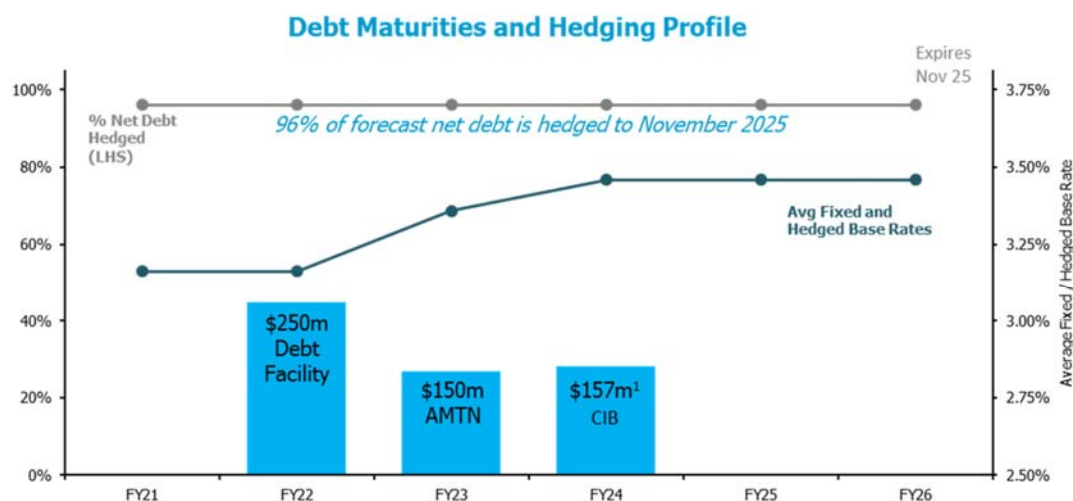
Capital Management

ALE's debt capital structure was characterised by the following positive features at June 2020:

- Investment grade credit rating of Baa2 (stable)
- Debt maturities diversified over the next 3.4 years
- 96% of forecast net debt hedged over the next 5.4 years
- Gearing at historical low of 41.3% (41.5% at June 2019)
- Debt facility of \$250 million repaid all FY20 maturing debt.

ALE's debt facilities include a number of market standard covenants. ALE currently enjoys significant headroom to all of them. The total value of ALE's properties would need to fall in value by 33% (around \$390 million) before breaching the nearest gearing covenant.

ALE has a debt facility and two fixed rate debt instruments, Capital Indexed Bonds (CIB) and Australian Medium Term Notes (AMTN) with diversified maturities.



1. CIB balance escalates with CPI

2018 Rent Review

During FY19 ALE's first major rent review commenced on 79 of ALE's 86 investment properties. Of the remaining seven properties, four properties have later review dates, including two that have received CPI increases in the current period, and three properties have non-standard leases.

On 3 August 2018, ALE issued rent notices to its tenant, ALH, advising that the rent on each of the 79 properties subject to the current rent review should increase by the maximum 10%. ALE and ALH subsequently agreed that 36 properties' rents would increase by that maximum 10%. 43 properties remain subject to independent determination and may increase or decrease by up to 10%.

An increase for 43 of the 86 properties increased ALE's total passing gross rent as at 30 June 2020 to \$61.51 million, an increase of 0.9% on the prior year.

The following table provides additional information around the types of leases and timing of the rent reviews:

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
40 Hotels	Nov 2018	26.49	Nov 2028	10	40 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
Balmoral, WA	Feb 2023	0.52	Feb 2023	5	Greater of CPI and 7% of Turnover
Burleigh Heads, QLD	Nov 2023	0.81	Nov 2033	10	Standard lease
Narrabeen Sands, NSW	Jun 2024	0.84	Jun 2034	10	Standard lease
Brass Monkey, WA	Jun 2025	0.60	-	-	Ratchet and renewed to Jun 2025 with no further extensions
Anglers Arms, QLD	Nov 2028	0.66	Nov 2028	10	Standard lease. Increase of 10% occurred at Jun 2017
36 Hotels	Nov 2028	26.88	Nov 2028	10	Standard leases. Increase of 10% agreed at Nov 2018
Noosa Reef, QLD	Jun 2029	0.72	Jun 2029	10	Standard lease
Pritchard's, NSW	Sep 2030	1.84	Sep 2030	10	Increase at fixed 3%. Lease renewed to Sep 2030
Total Rent		61.51			

* 30 June 2020 gross passing rent amounts before deducting land tax for QLD properties. 79 of ALH's 86 properties are subject to the CY18 rent reviews

** Standard leases review to market between Feb 2023 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 standard leases occur between 2028 and 2034. The three non-standard leases are Balmoral, Brass Monkey and Pritchard's.

*** Property adjoining Miami Hotel, QLD receives a gross passing rent of \$0.08m. It is excluded from the above rent amounts.

**** The bolded four lines at the top of the table are the 43 properties subject to rental determination.

As noted in the table above, during the year the leases for both the Pritchard's Hotel and Brass Monkey Hotel were renewed by ALH.

ALH and Endeavour Group's Separation From Woolworths

On 2 February 2020, Woolworths Group, ALH's majority shareholder, announced that it had successfully completed the merger of the Endeavour Drinks division with ALH. The merged entity has been named Endeavour Group. This created Australia's largest drinks and hospitality business with sales for FY19 of approximately \$10 billion and earnings of \$1 billion.

Following the significant impacts of COVID-19, in March 2020 Woolworths announced that Endeavour Group's separation would be delayed until the second half of CY21. Woolworth also announced that the separation is to be by demerger or value accretive alternative. In the event of a demerger, the Group's capital structure is targeting an investment grade rating.

ALE will continue to monitor any developments in relation to the future control and ownership of ALH.

Impact of COVID-19

The licenced hotel industry has been significantly impacted by the COVID-19 pandemic with ALH closing all 86 hotels owned by ALE in line with Government health directions on 23 March 2020. ALH continued to trade from 66 BWS and 23 Dan Murphy's owned by ALE.

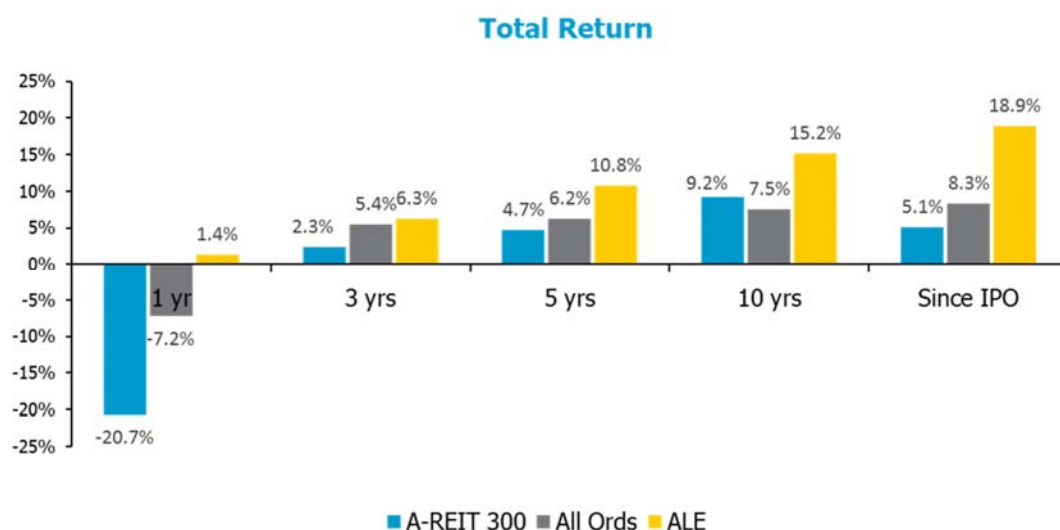
Today, ALH's operations at the hotels remain subject to a range of restrictions across the different States.

ALE's Performance

As indicated by the chart below, ALE has outperformed both S&P/ASX 300 AREIT index and the S&P/ASX All Ordinaries Index over the past one, three, five, 10 and 17 years to 30 June 2020.

A \$1.00 investment in ALE at the time of the ASX listing nearly 17 years ago, with reinvested distributions, would have grown to \$17.67 as at 30 June 2020.

This is equivalent to 18.9% p.a. total return since the ASX listing in 2003.



1. Total return is the annual compound return (IRR) for the number of years ending 30 June 2020
2. Includes ASX market price of \$4.97 as at 30 June 2020 and reinvestment of distributions and 2009 renunciation payment
3. ALE, All Ordinaries Accumulation Index and UBS S&P REIT 300 Index data sourced from ASX, UBS and ALE

FY21 Outlook

Rent Determination

ALE's current view is that the total passing rent is materially less than the uncapped rents. That said, the extent of the difference between passing and uncapped rent is not evenly spread across the portfolio.

For the remaining 43 properties subject to determinations the rents may increase or decrease by up to 10%. The rent determination results will be back dated to 4 November 2018 by a one-off payment. The range of passing gross rents and one-off back payments for the portfolio of 86 properties is as follows:

	<u>Rent</u>	<u>One-off Payment</u>
• Current	\$61.5m	
• Worst case	\$59.1m	To ALH of \$5.4m*
• Best case	\$64.9m	To ALE of \$5.5m*

* Note: Cases show 10% movements for 43 properties subject to determination. Back payments assume approximately 23 months ending 30 September 2020.

The passing gross rent at Nov 2018, before the rent reviews commenced, was \$58.5 million.

ALE remains confident of a positive result but notes it may not receive a full 10% rent increase for each of the properties. The remaining rent determinations are to be handed down at the same time and are currently anticipated during the first quarter of FY21.

FY21 Distributable Profit

ALE's FY21 distributable profit is expected to be impacted by a range of factors:

- Rent review results: determination results will be back dated to 4 Nov 2018; and
- Rent review costs: expected to be materially lower than previous years.

As previously advised, following the finalisation of the rent review determinations, the Board will review the appropriateness of the current distribution and capital management policy.

CEO Succession

After nearly 16 years in the role, Andrew Wilkinson advised ALE's Board around 12 months ago that he would look to pursue new executive challenges outside ALE. At the same time he agreed to remain fully committed to the role until the 2018 rent determinations were completed, a new CEO was appointed and an effective transition was completed.

In May 2020, ALE's Board was pleased to announce the appointment of Guy Farrands as a consultant and CEO elect. We are delighted to have secured an executive with Guy's extensive background and leadership experience in the property sector to lead ALE during its next period of growth.

It is anticipated that Andrew will step down as CEO/MD during first quarter of FY21 and Guy will be appointed as CEO at that time. Andrew will continue to work closely with Guy and the Board to ensure a smooth succession.

We are particularly grateful to Andrew for his very significant contribution to ALE over the many years he has been the Company's CEO and Managing Director. Since Andrew advised the Board of his desire to step down he has continued to work in a very diligent, measured and effective manner for the benefit of ALE and its securityholders.

This ASX release was approved and authorised for release by the Board of Directors

- Ends -

Further Notes

1. 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.
2. Gearing relates to AMTN and New Debt Facility covenants being $(\text{Net Finance Debt} - \text{Cash}) / (\text{Total Assets} - \text{Cash} - \text{Deferred Tax Assets})$ of ALE Direct Property Trust. This ratio is considered, in the opinion of the Directors, most relevant to securityholders as it is the debt covenant that is most relevant for assessing the headroom available.
3. Accumulated value includes security price of \$4.97 at 30 June 2020 plus reinvestment of all distributions and renunciation payments since ALE's 2003 listing.

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