ASX ANNOUNCEMENT

7 August 2020

Announcement No. 14/20

The Manager
Corporate Announcement Office
Australian Securities Exchange

ANNUAL REVIEW AND ANNUAL REPORT 2020

Please find attached a copy of the ALE Property Group (ALE) Annual Review 2020.

ALE will mail the Annual Review to securityholders unless they have elected not to receive one.

ALE's Annual Report was released on 5th August 2020.

ALE Property Group released the following 2020 reporting materials:

- FY20 Annual Review **aleproperty2020.reportonline.com.au**
- FY20 Annual Report **aleproperty2020.reportonline.com.au**

ALE's website contains all the results materials **alegroup.com.au**

ALE's website also includes a video tour above and through a selection of our hotels.

ALE's Property Compendium 2020 is expected to be released the week commencing 10 August 2020.

This ASX release was approved and authorised for release by Andrew Wilkinson, Managing Director and CEO.

- Ends –

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ALE Property Group

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ALE PROPERTY GROUP

Building on Strong Foundations

Annual Review 2020

Miami Tavern,
Gold Coast, QLD

Highlights

During the year ALE's positive results were evident across the property portfolio, capital management matters and relative equity performance.

$1,174.2m
Statutory property values

18.9% p.a
17 year total return

5.08%
Average adopted yield

8.3 years
Average lease term

+ four options of 10 years

0.9%
Gross passing rental growth

41.3%
Gearing

2.4 years
Average debt maturity

5.4 years
Hedge maturity

$20.9cps
Distribution


Miami Tavern,
Gold Coast, QLD

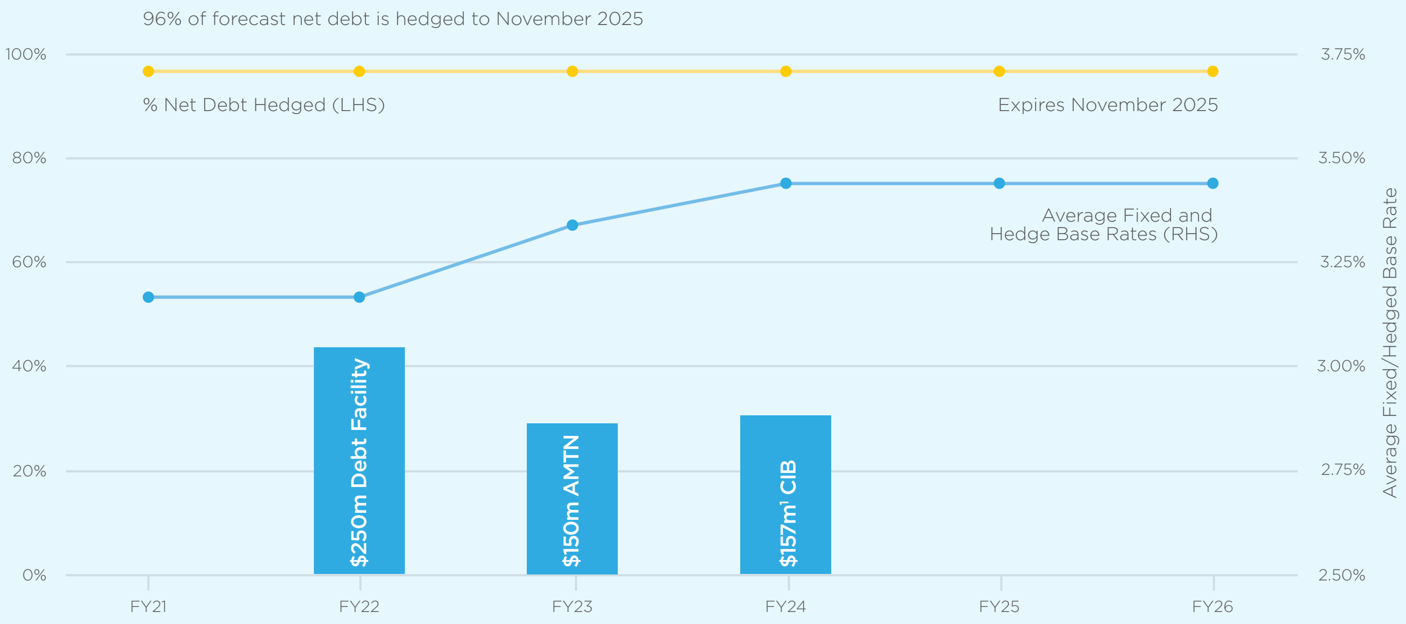
Results

FY20

Debt Capital

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

Debt Maturities and Hedging Profile



1. CIB balance escalates with CPI.

Year in Review

Chairman's and Managing Director's Q&A

"FY20 required a very considered response to the extraordinary volatility brought about by the impact of the COVID-19 pandemic on both ALH's operations and the financial markets in which ALE obtains its funding."

Robert Mactier

Guy Farrands, CEO Elect
Robert Mactier, Chairman

Rob, we welcome your overall reflections on the past year

FY20 required a very considered response to the extraordinary volatility brought about by the impact of the COVID-19 pandemic on both ALH's operations and the financial markets in which ALE obtains its funding.

Notwithstanding these challenges and the ongoing process to finalise the rent determinations, ALE successfully completed a $250 million refinancing in May 2020.

We look forward to the imminent finalisation of the rent determination process and setting our strategy based on the outcome of these reviews and what they indicate about our expectations for the open market rent reviews in November 2028.

Andrew, what were the highlights of ALE's FY20 results?

ALE once again delivered positive or unchanged results for all key financial metrics.

Full year distributions remained unchanged at 20.90 cents per security, 49.42% tax deferred.

The property valuations increased during the year to around $1,174 million and gearing reduced to a historic low of 41.3%.[2]

The total return to securityholders over the past one, three, five, 10 and 17 years has outperformed the AREIT 300 and the wider All Ordinaries Index.

Andrew, what is the latest update for the 2018 rent review?

Towards the end of FY19 ALE lodged comprehensive submissions for 43 of the 86 investment properties for what will be ALE's first major rent review.

ALH accepted a 10% increase for 36 properties while the rent for the remaining 43 properties may increase or decrease by up to 10% following determinations by independent valuers. The determinations are currently expected during the first quarter of FY21.

ALE remains confident of a positive result but notes it may not receive a full 10% rent increase for all 43 properties. The rent determination results will be back dated to 4 November 2018.

Andrew, what is the status of 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 tenant. The merged entity has been named Endeavour Group and ALH is a wholly owned subsidiary of that entity. As Woolworths has stated publicly, this created Australia's largest drinks and hospitality business with sales for FY19 of approximately $10 billion and earnings of $1 billion. While ALH currently operates around 600 retail liquor outlets, Woolworths advises that the merger expanded this to more than 1,900 venues and outlets.

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. Woolworths 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.

Rob, what is the status of the CEO succession plan?

After nearly 16 years in the role, Andrew advised ALE's Board around 12 months ago that he would look to pursue new executive challenges outside ALE.

In May 2020, ALE's Board was pleased to announce the appointment of Guy Farrands as a consultant and the 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 shortly after the receipt of the rent determinations 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.

Robert Mactier
Non-Executive Chairman

Andrew Wilkinson
Managing Director

“ We look forward to the imminent finalisation of the rent determination process and setting our strategy based on the outcome of these reviews and what they indicate about our expectations for the open market rent reviews in November 2028.”

Operational Review

The total value of ALE’s properties increased by 0.9% to around $1,174 million during the year.

Andrew Wilkinson,
Managing Director

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 Ended 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:

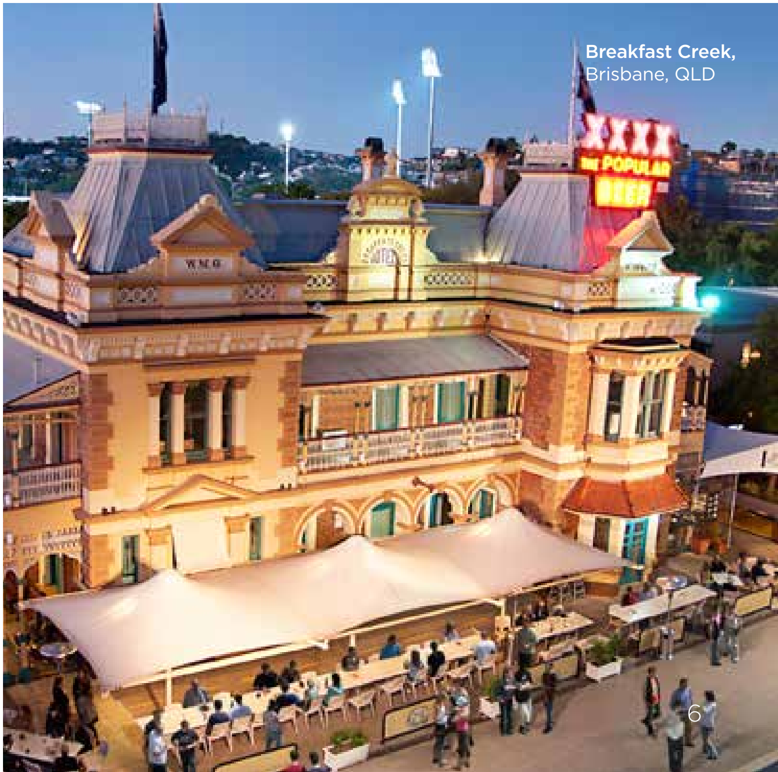
- Property income increased by 2.0% to $61.4 million due to rent increases resulting from average rent increase of 1.7% for 43 of the 86 properties;
- Borrowing expenses remained largely unchanged;
- Management expenses were materially lower due to a reduction in the one-off costs in FY19 relating to 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 CIB accumulating indexation. A full reconciliation of accounting profit to distributable profit has been provided in the Directors' Report.[1]

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



Breakfast Creek,
Brisbane, QLD

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 on 5 August 2020.

Capital Management

ALE's debt capital structure was characterised by the following positive features at 30 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); and
- Debt facility of $250 million repaid all CY20 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.

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.

Burleigh Heads,
Gold Coast, QLD

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 June 2025 with no further extensions.
Anglers Arms, QLD	Nov 2028	0.66	Nov 2028	10	Standard lease. Increase of 10% occurred at June 2017.
36 Hotels	Nov 2028	26.88	Nov 2028	10	Standard lease. Increase of 10% agreed at November 2018.
Noosa Reef, QLD	Jun 2029	0.72	Jun 2029	10	Standard lease.
Pritchard's, NSW	Sep 2030	1.84	Sep 2030	10	Increased at fixed 3%. Lease renewed to September 2030.
Total Rent		**61.51**			

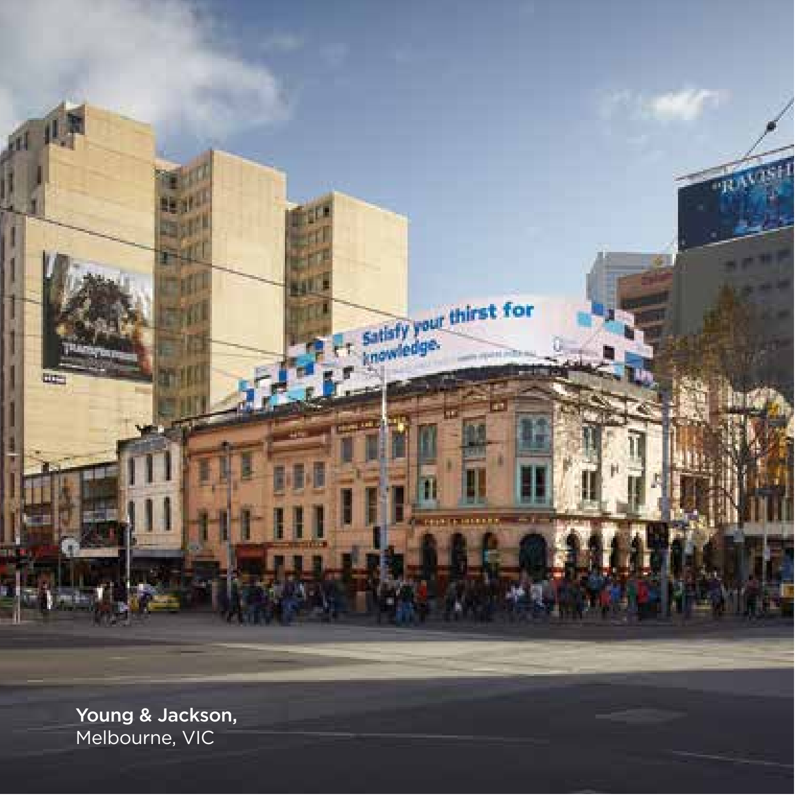
As noted in the table above, during the year the leases for both the Pritchard's Hotel and Brass Monkey Hotel were renewed by ALH.

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

** Standard leases review to market between February 2023 and June 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, Queensland receives a passing gross rent of $0.08 million. 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.



Young & Jackson,
Melbourne, VIC

Impact of COVID-19

The licensed 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 outlets owned by ALE.

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

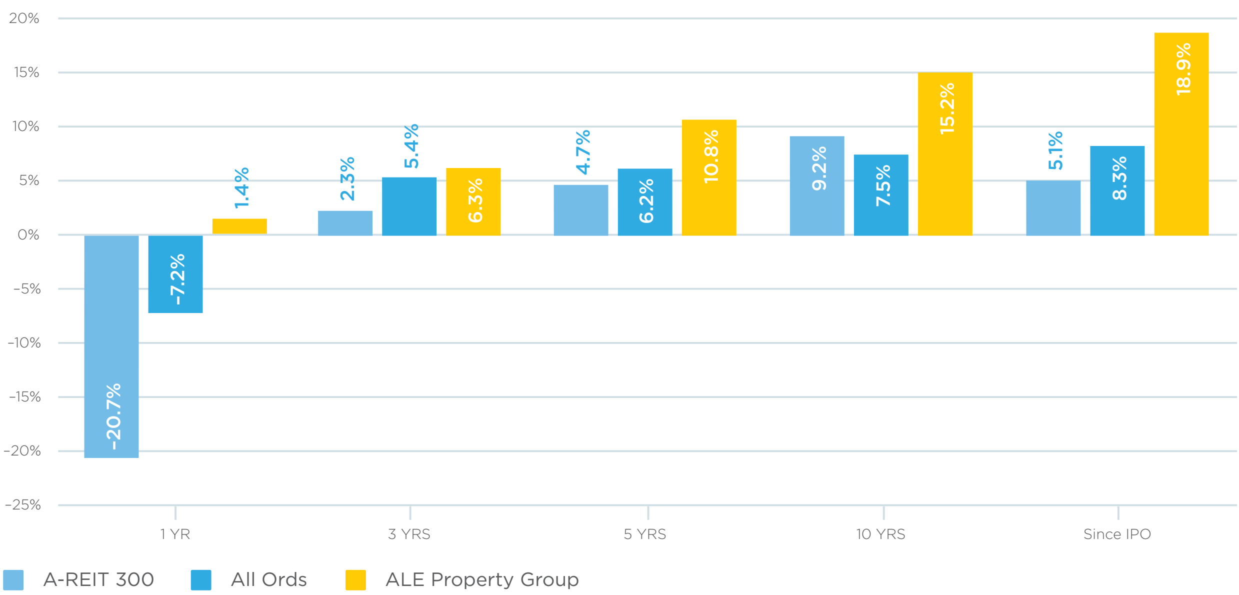
ALE's Performance

As indicated by the chart below, ALE has outperformed both the S&P/ASX 300 A-REIT 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.[3]

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

Total Return



a) Total return is the annual compound return (IRR) for the number of years ending 30 June 2020.

b) Includes ASX market price of $4.97 as at 30 June 2020 and reinvestment of distributions and 2009 renunciation payment.

c) ALE, All Ordinaries Accumulation Index and UBS S&P REIT 300 Index data sourced from ASX, UBS and ALE.

FY21 Outlook

"Following the finalisation of the rent review determinations, the Board will review the appropriateness of the current distribution and capital management policy."

The Miami,
Miami, QLD

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:

	Rent	One-off Payment
Current	**$61.5m**	–
Worst case	**$59.1m**	Payment from ALE to ALH of $5.4m*
Best case	**$64.9m**	Payment from ALH 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.

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ALE PROPERTY GROUP

For more information visit our
2020 Annual Review website
aleproperty2020.reportonline.com.au

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Further Notes

1. Distributable Profit is a non-IFRS measure that shows how free cash flow is calculated by ALE. 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 (Net Finance Debt – Cash)/(Total Assets – Cash – 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.