



## Australian Leisure and Entertainment Property Management Limited

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### ALE PROPERTY GROUP ANNUAL GENERAL MEETING 2020

#### MANAGING DIRECTORS ADDRESS

Hello my name is Guy Farrands. As Rob mentioned, I am your new managing director and I would like to add my welcome to his.

#### Group Highlights

ALE's performance for the year to 30 June 2020 was strong. Net property income increased and distributions to security holders remained at 20.9 cents per security. This follows a 17 year total return of almost 19% per annum. However, as most investors here are probably aware, three important events have occurred since 30<sup>th</sup> June.

#### Post Balance Date Events

Firstly, the determinations for the November 2018 rent reviews were finally received in September. 79 properties were due for rent review as at November 2018 but because our tenant, ALH, agreed to the maximum capped increase of 10% for 36 of those, rental for the other 43 needed to be determined by independent valuers.

When one considers the rent for the properties where the 10% increase was agreed, together with the rent for the 43 properties that was set by the determining valuer, the rent for the whole 79 properties increased by 4.4%. But for the 43 properties where the rent was determined overall it remained unchanged, although there was a wide difference between determinations received across the 43 properties.

Secondly, ALE has carefully considered the determinations and has decided to apply to the Supreme Court of Victoria to have the Victorian determinations set aside. I will speak more about this later in the presentation.

Thirdly, as we announced yesterday, our properties were re-valued as at 31 October 2020 to take account of the results of the rental determinations as received and their

methodologies. The properties increased in value by 4.4% over the 30 June 2020 level.

I commenced as your managing director on 1 October, taking over from Andrew Wilkinson. I would like to thank Andrew for his kind help in settling me in and for the outstanding work that he did for the company over his 17 year tenure.

## **17 Years of Equity Performance**

Before I move on in general, this chart shows the strong performance of the business on ASX since inception.

## **Financial Highlights**

The key highlights here are that distributable profit increased to \$30.4 million, an increase over the preceding year of 7.5%. The Business performed relatively well on the sharemarket whilst at the same time having gearing at the historic low level of 41.3%

## **Distributable Profit**

This page sets out more detail on distributable profit. Please note that the rental increases I described earlier as a result of the determinations did not impact the numbers for the year ended 30 June 2020. The benefit of those increases will be shown from this financial year onwards.

## **Net Profit IFRS and Distributable Profit**

Like most if not all Real Estate investment trusts we adjust net profit before calculating distributable income. We add back non-cash items which is designed to allow us to better show the cash flow generated by the properties in an ongoing sense and calculate distributions using that as a reference point.

## **Rental Determinations**

Moving now to the post balance date events.

The 2018 rental determinations were received in September 2020.

In aggregate, the Independent Valuers have assessed that rent for the 43 properties that were the subject of determinations as received will remain substantially unchanged from the rent immediately preceding November 2018.

Including the rents for the 36 properties that were previously agreed to increase by the full 10% cap, the rent for 79 properties subject to review increased by 4.4%.

In addition to the 2018 rent reviews, 85 of ALE's 86 property leases continue to benefit from annual CPI increases.

### **Proceedings in the Supreme Court of Victoria**

ALE has commenced proceedings in the Supreme Court of Victoria to set aside the 19 determinations for properties in Victoria on the basis that the determinations are the outcome of the application of an incorrect methodology.

The valuations and estimated uncapped/uncollared rent announced yesterday do not take into account the potential impact of the proceedings.

### **31 October 2020 Valuations**

This page provides more detail on the valuations that were undertaken as at 31 October 2020. We felt it important to revalue the portfolio to take into account the rental determinations received, both the rents determined and the methodology that the valuers undertook when making the determinations.

The property portfolio increased in value by 4.4% due to several factors, the determinations and their impact on current and anticipated cash flows, the passage of time and strengthening of the property market since 30 June 2020 and, in one or two cases, capital spent on the properties by our tenant.

The outcome of the litigation may impact valuations. The court may provide guidance in relation to the rent review provisions in the lease and that may impact the valuation of the properties, the 2018 rental determinations and the assessment of uncapped and uncollared rent in 2028.

There is more detail about this in the announcement we made to ASX yesterday.

### **Uncapped/Uncollared rent levels.**

In the same announcement we made yesterday, we disclosed the valuers' aggregate estimate of the uncapped and uncollared gross rental levels for our portfolio as at 31 October 2020. The valuers estimated the uncapped rent as 33% higher in aggregate than is currently payable. This was after taking into account both the results and the methodology of the rental determinations.

It is of course pleasing that a third party agrees with our contention that the rents payable for the properties are not reflective of current levels. However, this estimate reflects the opinion of the independent valuers as at 31 October 2020 and should not be taken as a forecast.

The first time an uncapped or uncollared rent review will be undertaken is in November 2028 and only for properties where the tenant has exercised the first of its 10 year options to renew. Also, although across the whole portfolio the current rent is estimated to be 33% higher than what is currently payable, this number varies widely between different properties.

As I mentioned previously, the outcome of the litigation may be relevant to the determination of uncapped and uncollared rents both in 2018 and 2028.

### Capital Management introduction

Turning now to capital management, we continue to benefit from a strong balance sheet. Our debt maturities are diversified over the next three years and our interest rates are fixed. Gearing as at 30 June 2020 was at a then historic low of 41.3%. However, when you take into account the increased property valuations, proforma gearing at 30 June would have fallen further to 39.7%

### Capital Management Maturities

This chart shows our debt maturity profile. One of the tasks at hand is to refinance the \$250 million which will expire in 2022. Work is proceeding satisfactorily in that regard. You will also see that a very substantial portion of the debt is at fixed rates. We are reviewing whether this is the most appropriate hedging strategy for the business.

### ALH Update

This page shows some detail on our tenant, ALH. I have used numbers for the year ended 30 June 2019, because numbers for the year ended 30 June 2020, although now available, are distorted because of the impact of COVID 19.

As many of you would know, Woolworths has created Endeavour Group, which is a combination of our tenant ALH and Endeavour Drinks. Woolworths has advised an intention to pursue a separation of this business during the 2021 calendar year, by a demerger or some form of value accretive alternative. In the event of a demerger, Woolworths has advised that Endeavour Drinks will target an investment-grade credit rating.

## Outlook

The outlook for the rest of the 2021 financial year remains stable.

Our tenant is continuing to closely monitor the impact of COVID 19 and as at today all of the pubs operated by ALH are open but are subject to varying restrictions from state to state.

We have received all of the pub rental payments on the due date since the start of the pandemic.

We are carefully considering the outlook for distributions and for the best capital structure for the business now that we have the results of the determinations.

We will advise security holders as soon as possible once we have reached some conclusions here.

## ALE's Value proposition

Our value proposition remains very strong. We have a portfolio of 86 pub properties mostly located in capital cities. Almost without exception these are on triple net leases to ALH with long term rights for the tenant to renew. Independent valuers have assessed rents for the properties that are higher than those currently being paid. We believe this is an attractive value proposition for investors

Thank you.

**Guy Farrands**

**17 November 2020**