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**ASX ANNOUNCEMENT**
**27 November 2020**

# Chairman's Address - 2020 AGM

Ladies and Gentlemen,

Welcome to the Annual General Meeting of Aspen Group for the year ending 30 June 2020. As a Victorian, I am very pleased to be in Sydney today to Chair this meeting in person.

It has been a very turbulent time for all of us. Financial year 2020 commenced well for Aspen with the residential markets recovering from a pre-election slumber after the surprise re-election of the Coalition with its friendly policies for homeowners and investors. This was followed by the devastating bushfires from late December, then the COVID-19 pandemic that materially impacted our short stay tourism business.

On a brighter note, our management team has navigated the environment tremendously well. Throughout COVID-19 they have been very nimble, leasing the majority of our traditional short stay holiday cabins on a longer-term basis, often to essential workers. Despite materially lower rates for longer stay business, the profitability of most of these properties has held up well due to the higher occupancy, cost saving initiatives and government subsidies including JobKeeper. Aspen's profitability has also been enhanced by continued growth in rents at our residential, land lease and mixed-use communities, increased development activity, and a material reduction in corporate overheads.

Aspen's business and property portfolio is all about providing our customers with a better lifestyle at a more affordable price, which has become even more desirable in the COVID-19 era. Our business is highly diverse in terms of customers, product type, geography and regulatory regime, and we have a very measured exposure to development, which has protected us in this volatile environment.

In FY20 Aspen Group produced Underlying Earnings per Security of 6.80 cents which was up 32% on FY19. Distributions per Security totaled 6.00 cents, up 20% on the prior year. Aspen's stock price has been trading near 5-year highs which is very pleasing considering the challenging environment.

Late in the financial year Aspen raised $20 million of new equity to fund its continued growth including increased development activity in the current portfolio and acquiring additional properties when opportunities arise.

I would like to thank all of Aspen's employees at head office and at the properties for their hard work and commitment throughout a very difficult period.

Clive Appleton
Chairman

# CEO's Address – 2020 AGM

## Business Model

We believe Aspen's opportunities are tremendous within Australia's $7 trillion residential markets. Aspen provides the entire spectrum of accommodation products and services on competitive terms. Our customers range from single to large family households of all ages. We believe our addressable market is worth over $1 trillion considering about 6.5 million households (70% of total) are either renting or servicing a mortgage and that 1.5 million are considered "stressed", paying more than 30% of gross income on housing costs. This is despite 1.3 million households receiving Commonwealth Rent Assistance totaling over $4.4 billion annually.

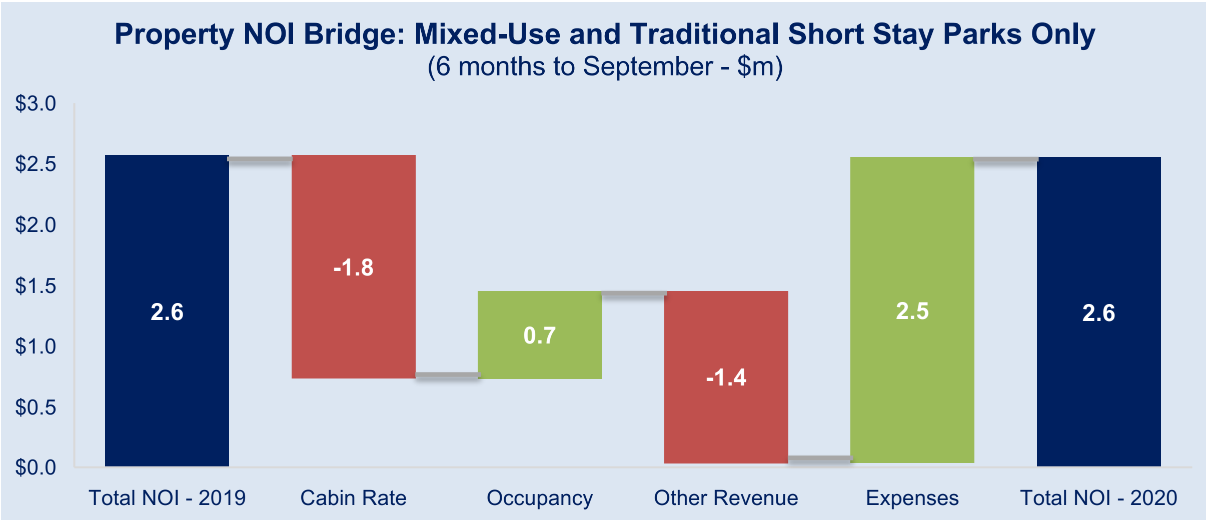
## Portfolio

Since 30 June 2019, the total value of Aspen's property portfolio has increased by about 40% to $180 million including the Cooks Hill co-living community, Burleigh Heads residential community, and Mount Barker land which have or are due to settle in the first half of FY21. Our low entry prices for these new properties positions us well to be able to provide the best value accommodation in their markets and also generate attractive investment returns for securityholders.

Our FY20 acquisitions are performing well. The average rent at our Treatts Road, Lindfield apartments has increased by more than 60% since acquisition to a still affordable $310 per week after we changed the tenant mix and completed refurbishment of all but 3 of the units. In Perth, new housing supply has been growing at less than historic levels for years, and demand has increased during COVID-19 as people have moved from interstate and returned from overseas. Vacancy rates are approaching zero and market rents increased about 7% in the September quarter alone (domain.com.au). We have been improving tenant quality in our Perth portfolio, arrears have declined, and we expect our rents to increase post the moratorium for sitting tenants that ends 31 March 2021.

Our land lease communities have continued their steady performance with reasonable increases in rents and tight cost controls.

We have been actively managing lease duration and expenses at our mixed-use and traditional short stay parks during COVID-19. We quickly pivoted to longer stay leases at the onset of the pandemic, and we are now pivoting back to shorter stay business as gathering and border restrictions ease heading into the peak summer holiday period. Our NSW coastal parks are essentially fully booked from late December to the end of January at higher rates than last year. However, Adelaide Caravan Park is taking longer to recover as it is located close to the CBD which is lacking the traditional large events and business custom. Darwin suffered a material decline in accommodation and F&B revenues during its peak trading period from June to September due mainly to Northern Territory border closures, however net income is ahead of last year due to the introduction of new entertainment, function and gaming facilities in June, and lower expenses.





Aspen Karratha Village (AKV) continues to perform well. Economic activity in the Karratha region remains robust, residential vacancy rates have been declining, and room rates and residential rents have been increasing. According to REIWA the median house rent is now $620 per week, up 46% over the year. It is not straight-forward and relatively costly adding new supply in Karratha due to its remote location, lack of developers and building contractors, and the difficulty of housing fly-in workers given low vacancy rates. We are currently achieving a rate of about $150 per night per occupied room (including food) under our contract with Woodside that expires January 2021, and over $200 per night for our other rooms that we offer on a short stay basis. We have decided to bring the management of this property in-house as we believe we can operate it better and at a lower cost, particularly under a short stay model. We have started taking bookings for February onwards and we have also offered longer term leases to some large corporates at discounted rates to the current spot market and discussions are continuing. We believe the replacement cost of AKV is over $30 million, its current book value is $11 million, and the property is currently being externally revalued for the half year accounts based on an assumption that no long-term leases are in place.

Development activity has been steadily increasing across the portfolio. The expansion of our Sweetwater Grove land lease community has commenced, and we have already sold 5 houses (settled, contracted and deposited) at an average price of approximately $240,000 and the contracted land rent is $160 per week. The sales price is less than half the $500,000 median price of a 1-bedroom apartment in Newcastle (domain.com.au). We are proceeding with plans to convert and expand our property in Newcastle's exclusive Cooks Hill into 50 fully self-contained studios for an all-in expected cost of less than $200,000 each. We have installed highly attractive Xodbox houses on spare land at Highway 1 and our new customers are paying rent of only $275 per week, whilst we achieve over 15% marginal ROCE. At our new Mount Barker project, we are aiming to change the current development approval so that we can profitably develop and sell quality land lease houses at less than $300,000 and residential land lots from as little as $100,000.

**New Houses at Sweetwater Grove**

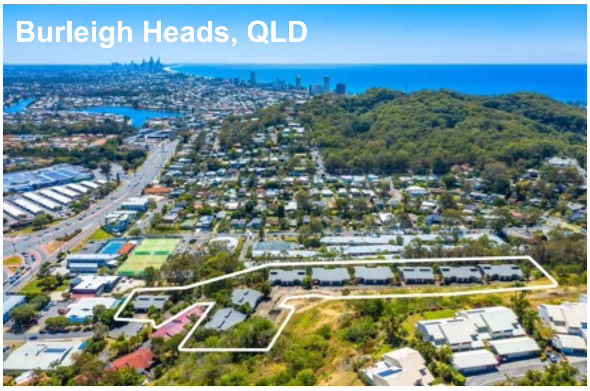
**SOLD $250,000 + $160 per week land rent**




## New Xodboxes at Highway 1

**LEASED - $275 per week**

The Newcastle, Mount Barker, Burleigh Heads and Rockingham regions offer attractive lifestyles, lower density living, good quality education, health, retail and entertainment facilities, easy access to CBDs and other job centres, at more affordable prices. These attributes have become even more attractive during COVID-19.




Aspen's total portfolio is attractively valued on a weighted average capitalisation rate (WACR) of 8.1% and an average of $77,000 per approved site including dwellings. The majority of Aspen's portfolio is now located in major metropolitan areas and in properties which derive a majority of net income from term leases. All of Aspen's properties are well suited to the provision of quality accommodation on competitive terms in their local markets which underpins income. They also typically have the potential to be profitably repositioned and developed into higher value uses over time which underpins capital growth into the future.

Post debt funding the acquisitions of Cooks Hill co-living community, Burleigh Heads residential community and Mount Barker land, drawn bank debt is expected to be about $52 million and cash about $6 million. The net LTV ratio is expected to be 26% which is comfortably below our debt facility covenant of 50%.

## Financial Performance – First 4 Months of Financial Year 2021

Aspen's Underlying Earnings for the first four months of FY21 was 3.07 cents per security, an increase of 28% on the previous corresponding period.

**First 4 Months FY21 compared to same period FY20**


| Key Profit and Loss Metrics | FY20 $m | 4 Months FY20 $m | 4 Months FY21 $m | % Change |
|---|---|---|---|---|
| **Total Revenue** | **30.38** | **11.00** | **11.56** | **5%** |
| **Operating & Development Net Income** | **12.46** | **4.36** | **5.43** | **25%** |
| Margin | 41% | 40% | 47% | |
| **Operations** | | | | |
| Rental and ancillary services revenue | 28.13 | 9.95 | 9.76 | (2%) |
| **Net operating income** | **11.78** | **3.98** | **4.80** | **21%** |
| Margin | 42% | 40% | 49% | |
| **Development & Trading** | | | | |
| Development & trading revenue | 2.25 | 1.05 | 1.80 | 71% |
| **Net development income** | **0.68** | **0.38** | **0.63** | **66%** |
| Margin | 30% | 36% | 35% | |
| **Net corporate overheads** | **(4.43)** | **(1.66)** | **(1.41)** | **(15%)** |
| **EBITDA** | **8.03** | **2.70** | **4.01** | **49%** |
| Net finance expense | (1.39) | (0.38) | (0.45) | 16% |
| **Operating profit** | **6.64** | **2.31** | **3.57** | **54%** |
| Securities (weighted) | 97.6 | 96.3 | 116.4 | |
| **Operating profit per security (cents)** | **6.80** | **2.40** | **3.07** | **28%** |

Financial information is as per internal management accounts and has not been audited. Aspen's earnings are variable, and investors are cautioned against simply annualising the first 4 months FY21 result.

Aspen was not eligible for any government subsidies including JobKeeper from 1 October, and borders have only gradually started to reopen. For the month of October, Aspen's underlying earnings was up 21% and EPS was flat versus the previous corresponding period. October to mid-December is traditionally a quieter period for our tourism parks as we transition from the peak period for Darwin Freespirit Resort into the peak summer season for our NSW parks.

The sale of one house settled in October at our land lease developments. The results do not include insurance payouts relating to the bushfires last summer that are still being assessed and that we expect to receive this half.

## Outlook

We expect rents and net income to grow across our residential and land lease portfolios, particularly once Western Australia's moratorium on rent increases ends on 31 March 2021. At Darwin Freespirit Resort the tail end of the season is holding up longer than usual, and bookings for the upcoming peak summer holiday season are strong for our NSW holiday parks. We are looking forward to operating Aspen Karratha Village in-house and under a short stay model while economic activity in the region is robust. We expect house sales at our Four Lanterns and Sweetwater Grove land lease communities to continue at a pleasing rate and we are planning to commence development at Mount Barker by the end of FY21.

We will continue to pursue opportunities to grow Aspen's portfolio of affordable accommodation properties in the residential, retirement and short stay sectors through development and acquisition.

The COVID-19 event is ongoing and evolving and it is not possible to accurately predict its impact on Aspen's business in future. Therefore, we are currently not able to quantify profit and distribution guidance for FY21.

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|---|---|
| David Dixon<br>Joint CEO | John Carter<br>Joint CEO |

Announcement authorised by the Board of Aspen Group Limited.

**END**


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|---|---|
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