ASX ANNOUNCEMENT

10 February 2021

Announcement No. 03/20
The Manager
Australian Securities Exchange

Results for the Half Year Ended 31 December 2020

ALE Property Group (ASX: LEP), the owner of Australia's largest portfolio of freehold pub properties, announced:

- an increase in statutory profit of 232% to $68.1 million; and
- an increase in distributable profit of 14.8% to $17.9 million.

Highlights:

- 2018 rent determinations received; litigation commenced in Victoria
- Portfolio assessed by valuers as 33% under-rented
- FY21 Distribution Guidance of 21.5cps, up 3%
- It is presently expected that distributions following FY21 will be increased by at least CPI
- Property valuations up by 4.4%, increasing NTA to $3.24ps
- Capital position remains strong with net gearing at historical low of 39.7%
- Portfolio highly resilient during COVID 19 – all pub rent paid when due

Results for Half Year Ending 31 December 2019

A summary of the results is provided in the following table:

$ Millions	Dec 20	Dec 19	Change
Revenue from properties	**$31.4**	$30.7	2.2%
Other revenue	**$0.0**	$0.2	-
Borrowing expense	**$8.4**	$11.0	(23.5%)
Management expense	**$3.4**	$2.6	30.8%
Land tax expense	**$1.7**	$1.7	-
Distributable Profit [1]	**$17.9**	$15.6	13.5%
Distributable Profit (cps)	**9.07c**	7.99c	14.8%
Distribution (cps)	**10.75c**	10.45c	3.0%

Rounding differences may arise

The difference between the distribution and distributable profit per security for the period will be paid from cash reserves. Distributable profit excludes non-cash items. The following factors resulted in distributable profit increasing by 14.8% to $17.9 million for the half year:

- 2.2% increase in rental income due to the following:
    - CPI increases
    - Outcome of rental determination
- Reduction in interest expense following deferral of the start date of the forward dated interest hedges from November 2020 to May 2021.
- Increase in management costs due to costs associated with insurance, CEO transition and rental determinations
- ALE did not receive any government COVID-19 relief payments

Accounting Result

ALE's reported net profit after tax (NPAT) of $68.1 million for the six months to 31 December 2020 is higher than previous corresponding period, substantially related to the increase in property values.

NPAT differs from Distributable Profit due the impact of non-cash adjustments for movements in the value of the properties and interest rate derivatives, and items such as 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]

2018 Rent Review

In September, ALE received the 2018 rent determinations ("Determinations") from the five independent determining valuers ("Independent Valuers").

In aggregate, the Independent Valuers assessed that rent for the 43 properties that were the subject of Determinations remained 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.

Please refer to our ASX announcement dated 14 September 2020 for further details.

ALE considered that the Determinations issued in relation to the 19 Victorian properties were not made in accordance with the requirements of the rent review provisions of the relevant leases. Therefore, ALE commenced proceedings in the Supreme Court of Victoria seeking declarations that the 19 Victorian Determinations are not in accordance with the relevant leases and are not binding on the parties. ALE also seeks a declaration that, in the event that new rent determinations are undertaken, they are to be conducted in accordance with the requirements of the rent review provisions that ALE considers are correct.

ALE expects that a decision of the court providing guidance in relation to the rent review provisions in the leases will be relevant to rent determinations which are undertaken as at November 2028, when an uncapped and uncollared rent review is due for all properties (unlike the November 2018 reviews when a 10% cap and collar applied) where the tenant has exercised its option to renew the lease for a further ten years. ALE does not expect the proceedings to be finalised until the next financial year.

Please refer to our ASX announcement dated 19 October 2020 for further details.

Statutory Property Valuations

The entire property portfolio was independently revalued as at 31 October 2020. These valuations were adopted as carrying values for the 31 December accounts.

- The carrying value of ALE's 86 pub properties is $1,225.8m. This is an increase of $51.6m or 4.4% over the valuations as at 30 June 2020 which were finalised prior to the receipt of the November 2018 Determinations.

- They weighted average adopted yield tightened marginally from 5.08% to 4.94%

- Based on a review of the Determinations received and adopting comparable methodology, independent valuers have provided an opinion of the uncapped rent of the properties
    - This analysis indicates that as at 31 October 2020 the uncapped/uncollared rent for the overall portfolio is approximately 33% higher than current passing rent, although the variance is not distributed evenly across the portfolio
    - The first uncapped/uncollared rent review will take place in 2028, for properties where the tenant exercises its option to renew

The Determinations as received have led to changes in key assumptions used by the independent valuers relative to previous independent valuations, including:

- Key valuation parameters including cap rates, discount rates and terminal yields have generally firmed and estimated EBITDAR for the properties has reduced
- Valuers have increased the weighting to DCF valuation

Please refer to our ASX announcement dated 16 November 2020 for further details.

Capital Management

ALE's capital position remains strong.

ALE's debt capital structure is currently characterised by the following positive features:

- Investment grade credit rating of Baa2 (negative outlook)
- Next debt maturity in August 2020
- Debt maturities diversified over the next 2.9 years
- 100% of forecast net debt hedged over the next 4.9 years
- All up cash interest rate of 3.15% fixed until the next interest rate step up

Net gearing at historical low of 39.7% (41.1% at June 2020)

- Gearing is expected to be impacted by distributions that are expected to remain above operating earnings. The extent to which gearing changes will depend on actual business performance, asset valuations, and capital and portfolio management initiatives which may be undertaken from time to time

Distribution Policy and Guidance

ALE will maintain its strategic priority of delivering predictable and growing distributions for securityholders whilst maintaining an investment grade credit profile. ALE's distribution policy going forward reflects the positive outlook for earnings and valuations following receipt of the 2018 rental determinations and expected to flow from the 2028 uncapped/uncollared rent reviews.

ALE has announced FY21 distribution guidance of 21.50 cents per security, representing a 3% increase relative to FY20 distributions. In addition, it is presently expected that distributions following FY21 will be increased by at least CPI.

Tenant Update

The portfolio was highly resilient during COVID 19 – all pub rent was paid when due. All pubs owned by ALE are open, albeit with state-based restrictions.

Separation of Endeavour Drinks and Woolworths has been deferred to CY21 in view of the impact of COVID-19. In event of a demerger, Endeavour Drinks is targeting an investment grade rating capital structure

- Ends –

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

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

Contact:
Guy Farrands
Managing Director
ALE Property Group

02 8231 8588
Website: www.alegroup.com.au