ALE PROPERTY GROUP

# Annual General Meeting 2021

Thursday 2 December 2021


# Today's Agenda

| | |
|---|---|
| Annual General Meetings | **Now** |
| Break | |
| Scheme Meetings | **11AM** |

# FY21 Financial Highlights as at 30 June 2021

**$179.2m**
Statutory profit after tax
+794.0% on FY20

**$3.71**
Net tangible assets per stapled security
+24.0% on FY20

**24.2%**
Margin above book value for six properties sold

**$34.4m**
Distributable income
+13.0% on FY20

**21.5c**
Distribution per security
+2.8% on FY20

**36.4%**
Gearing ratio
–490 bps on FY20

# Financial Results

# Financial Performance

## Strong profit growth based on rental determinations, CPI linked rents and strong investment property market

- **Property revenue increased due to:**
  - Rent determinations received in Sept 2020
  - CPI increase on determined rent for FY19 and FY20
  - Annual CPI increases for FY21
- **Fair value increments to investment properties due to adopted yields decreasing 49 bps and increased passing net rents**
- **During the year 4 properties were sold and settled achieving prices 22.5% above book values**
  - Management expenses increased due to:
  - Legal costs in relation to the challenge to the Victorian rental determination
  - CEO transition costs
  - All management positions filled for the whole year
  - Increased insurance costs

| | FY21 | FY20 | Change | |
|---|---|---|---|---|
| | ($'000) | ($'000) | ($'000) | (%) |
| Property revenue | 62,473 | 61,408 | 1,065 | 1.7% |
| Other revenue | 99 | 301 | (202) | (9.4%) |
| **Total Revenue** | **62,572** | **61,709** | **863** | 1.4% |
| Fair value increments to investment properties | 141,301 | 10,930 | 130,371 | 1,192.8% |
| Fair value increments to derivatives | 6,091 | – | 6,091 | – |
| Profit on sale of investment properties | 4,230 | – | 4,230 | – |
| **Total other income** | **151,622** | **10,930** | **140,692** | 1,287.2% |
| **Total revenue and other income** | **214,194** | **72,639** | **141,555** | 194.9% |
| Land tax | (3,329) | (3,313) | 16 | 0.5% |
| Management expenses | (7,888) | (6,148) | (1,740) | 130.9% |
| Finance costs | (23,540) | (25,856) | 2,316 | (8.9%) |
| Fair value decrements to derivatives | – | (17,306) | 17,306 | – |
| Income tax expense | (266) | 7 | (273) | – |
| **Profit after income tax** | **179,171** | **20,023** | 159,148 | 794.0% |

# Distributable Profit Performance

## Increased earnings and growing distributions

- **Property income increased due to:**
  - Rent determinations finalised in Sept 2020
  - CPI increase on Rent determinations for FY19
  - Annual CPI increases for FY21
  - Less impact of sold properties
- **Finance costs reduced as borrowings were refinanced during the year at lower interest rates**
- **Distributable income increased during the year due to increased rent received, lower interest costs offset by higher management expenses**

| | FY21 | FY20 | Change | |
|---|---|---|---|---|
| | ($'000) | ($'000) | ($'000) | (%) |
| Property revenue – Continuing Properties | 59,247 | 57,847 | 1,400 | 2.4% |
| Property revenue – divested properties | 3,226 | 3,561 | (335) | (9.4%) |
| Other revenue | 99 | 301 | (202) | (67.1%) |
| **Total Revenue** | **62,572** | **61,709** | **863** | **1.4%** |
| Land tax | (3,329) | (3,313) | (16) | 0.5% |
| Management expenses | (7,665) | (5,944) | (1,721) | 29.0% |
| Finance costs – cash | (17,205) | (22,041) | 4,836 | (21.9%) |
| **Distributable income** | **34,373** | **30,411** | 3,962 | 13.0% |
| | | | | |
| Distributable profit per stapled security | 17.15 | 15.53 | 1.62 | 10.4% |
| Distribution per stapled security | 21.50 | 20.90 | 0.60 | 2.9% |

# Financial Position

## Strong balance sheet

- **During the year 6 properties were sold and 4 settled, achieving prices 24.2% above book values.**
- **Investment properties have increased in value as adopted yields decreased from 5.08% to 4.59%, combined with increased net rent.**
- **Net assets per security increased due to higher investment property values, lower derivative values and lower borrowings.**
- **Cash balances increased equity raised from Distribution Re-investment Plan and by property sales, offset by derivative restructure payments and borrowings repaid**

| | FY21 | FY20 | Change | |
|---|---|---|---|---|
| | ($'000) | ($'000) | ($'000) | (%) |
| Cash | 43,621 | 39,568 | 4,053 | 10.2% |
| Investment properties held for sale | 68,886 | – | 68,886 | – |
| Investment properties | 1,225,375 | 1,174,160 | 51,215 | 4.4% |
| **Total assets** | **1,339,875** | **1,214,882** | **124,927** | **10.3%** |
| Borrowings | 540,894 | 551,412 | (10,518) | (1.9%) |
| **Net assets** | **742,956** | **584,601** | **158,355** | **27.1%** |
| Securities on issue | 200.4 | 195.8 | 4.6 | 2.4% |
| | | | | |
| **Net Tangible Assets Value per stapled security** | **$3.71** | **$2.99** | $0.72 | 24.0% |
| **Covenant Gearing** | **36.4%** | **41.3%** | 4.9% | 11.9% |

# Portfolio Update as at 30 June 2021

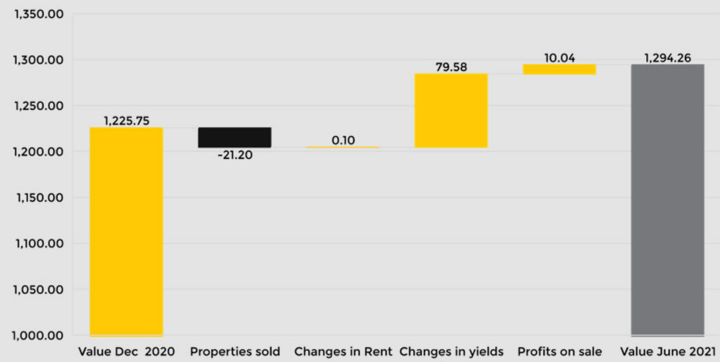
# June 30 2021 valuation outcomes

- NTA per stapled security increased to $3.71
  - 24.0% above 30 June 2020
  - 14.4% above 31 December 2020
- Continuing Properties value has **increased by 6.95%** since December 2020
- The average Passing Yield of the Continuing Properties has **decreased by 32bps** since December 2020 from 4.90% to 4.58%
- A greater reliance on the DCF valuation methodology is likely to better reflect the under-renting in the portfolio
  - Sales of ALE's six Non-Core properties indicate that the purchasers' estimated IRR is lower than that that adopted by valuers for the Continuing Properties
  - ALE believes the DCF method better reflects the long-term value of the properties

### Valuation Outcomes

| Cap Rate Method | Adopted Passing Yield | DCF Method |
|---|---|---|
| 4.52% | 4.51% | 4.24% |

### Contributors to Change in Valuation $m



# Portfolio Review and Sales

## Strong investment market and high quality properties/tenancy

- **Six properties sold:**
  - Weighted average premium of 24.2% to the book value applicable at the time of sale
  - 4.40% weighted average initial yield
- **Very strong market for income producing investments with long leases and low credit/leakage risk**
  - All properties sold at or immediately after auction/tender
- **Proceeds used to reduce net debt/partially restructure swaps**

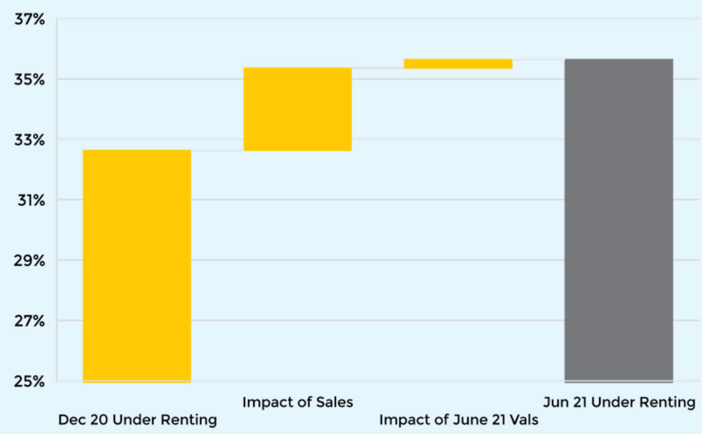
To determine the extent of under renting of the Continuing Properties:

- For properties independently valued as at 30 June 2021, the independent valuers' assessment as at that date was used
- For properties not independently valued as at 30 June 2021 the independent valuers' assessment as at 31 December 2020 was used

## Uncapped/uncollared rents

- **Independent valuers have provided an opinion of the uncapped/uncollared rent of the Continuing Properties.**
- **As at 31 December 2020 the assessed uncapped/uncollared under-renting was 35.6%**
  - 9.2% increase from December 2019 levels
- **Largely due to sales of non-core properties.**

### Contributors to Change in Under-renting



# Endeavour Group Demerger[1]

- EDV demerged from Woolworths and listed on ASX on 24 June 2020
  - Major shareholders WOW and Bruce Matheson Group

- EDV – some of the key areas of future growth
  - Strategic Expansion of Network
    - › Accelerate acquisition, roll-up and development of new hotels
  - Enhancing the existing footprint
    - › Accelerate hotel refurbishments
    - › Unlock the value of freehold and leasehold property assets over time
  - $500m+ debt facility headroom at demerger

1: Source: Woolworths Demerger of Endeavour Group – Briefing Presentation 10 May 2021

# Key subsequent events

To be discussed at today's Scheme Meetings

**1**

Proposed Scheme of Arrangement with a Charter Hall managed consortium

**2**

Further property revaluations

- NTA increased to $4.11 per security

**3**

Litigation

- Judgement received from Supreme Court of Victoria