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360 Capital REIT (ASX: TOT) – HY22 Results
Executing on 360 Capital REIT's Strategy

24 February 2022

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360 Capital FM Limited as Responsible Entity for the 360 Capital REIT (the "Fund" or "TOT") is pleased to announce its financial results and operational update for the half year ended 31 December 2021.

HY22 Key highlights

- Simplified the balance sheet of TOT with the disposal of \$6.0 million of non-core assets¹ completed;
- On 28 January 2021, TGP and TOT entered into a Memorandum of Understand (MOU) with a Charter Hall Group (ASX:CHC) managed partnership comprised of Dutch pension fund PGGM (PGGM) and Charter Hall Group;
- The MOU facilitated the Charter Hall Partnership to make a non-binding indicative offer to IAP Board to purchase all of the IAP securities on issue (including TOT's and 360 Capital Group (ASX:TGP) holdings totalling approximately 135.4 million securities) for \$1.90 per security plus pay the March 22 distribution (estimated at \$0.0467 per security);
- As part of the MOU, TOT will purchase a portfolio of 3 modern office buildings in IAP totalling \$254.0 million and portfolio WALE of approximately 8.3 years;
- If the Indicative Proposal is implemented, it is expected to deliver TOT a 33.1% Internal Rate of Return² on TOT's \$123.2m investment and increase forecast operating earnings per security for FY22 by 4.4X from 6.0cps to 26.5cps;
- In line with the transformation into a pure A-REIT, post period TOT entered an agreement (subject to TOT and TGP Securityholder approval) to sell TOT's 50% equity interest in PMG Funds to 360 Capital Group (ASX:TGP)³ for NZ\$21.875m⁴. Should Securityholders approve the transaction, TOT will make a pre-tax gain on the sale of approximately 2.0cps, realising a pre-tax IRR of 32.5%⁵;
- TOT settled the remaining 3 apartments in Gladesville during HY22, all 23 apartments have now been sold at an average premium of 19.7% to purchase price.

Key financial highlights for the half year ended 31 December 2021

- Statutory net profit of \$21.1m up 381% on pcp
- Operating profit⁶ of \$3.7m up 155% on pcp
- Statutory earnings per security (eps) of 15.1cps up 375% on pcp
- Operating eps of 2.6cps up 152% on pcp
- Fully franked distributions per security (dps) of 3.0cps in line with guidance and pcp

¹ Non-core assets included, at book value, the DET loan and shares (\$3.2m) and inventory disposal (\$2.8m)

² Pre-tax, assuming a realisation date of 30 June 2022

³ Subject to TOT and TGP investor approval. Includes the transfer of related deferred consideration assets and liabilities.

⁴ Excluding the NTA adjustment

⁵ Pre-tax IRR including dividends received

⁶ Operating profit is a financial measure which is not prescribed by Australian Accounting Standards (AAS) and represents the profit under AAS adjusted for non-operating items.



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- NTA per security of \$1.26 up 12cps or 10.5% from the end of previous financial year

Executing on Strategy

TOT has continued executing on its strategy of investing in real estate equity, simplifying TOT's strategy and focus to generating recurring income from real estate equity investments.

Proposed Irongate Group Transaction

The strategy of investing in IAP was to give TOT a portfolio of direct assets and TGP to expand its funds management activities. TOT made its initial investment in IAP in January 2021, acquiring a 9.2% interest, subsequently TOT and TGP acquired a further 10.7%, taking the combined holding to 19.9% at an average entry price of \$1.41⁷ versus the 31 December 2021 closing price of \$1.73 per security.

On 28 January 2021, TGP and TOT entered into a Memorandum of Understanding (MOU) with a Charter Hall Group (ASX:CHC) managed partnership comprised of Dutch pension fund PGGM (PGGM) and Charter Hall Group.

The MOU facilitated Charter Hall Partnership to make a non-binding indicative offer to IAP Board to purchase all of the IAP securities on issue (including TOT's and TGP's holdings totalling approximately 135.4 million securities) for \$1.90 per security plus pay the March 22 distribution (estimated at \$0.0467 per security) by way of a Trust Scheme (Indicative Proposal).

Terms of the MOU include (but not limited to) the following conditions:

- TOT will purchase a portfolio of 3 modern office buildings in IAP totalling \$254.0 million comprising a portfolio WALE of approximately 8.3 years;
- TGP will purchase a 50% share in 100 Willis Street, Wellington NZ for \$82.0 million and enter into a call option agreement to purchase the remaining 50% off the Charter Hall Partnership in the future; and
- TGP had requested to purchase the IAP's fund manager and co-investment stakes, however, we have been informed that certain stakeholders may have pre-emptive rights and therefore we have assumed we will not be purchasing the fund manager and co-investment stakes.

The IAP Board has granted the Charter Hall Partnership an exclusivity period of approximately 6 weeks due diligence in order to convert its Indicative Proposal to a binding proposal. TOT and TGP have also entered into agreements with Charter Hall Partnership to allow it to undertake due diligence on its assets it proposes to buy under the MOU.

Neither TGP nor TOT will be undertaking a capital raising to fund the Proposed Irongate Transaction, funding it from existing cash resources and bank borrowings.

If the Indicative Proposal is implemented, it is expected to deliver TOT a 33.1% Internal Rate of Return⁸ on TOT's \$123.2m investment and increase forecast operating earnings per security for FY22 by 4.4X from 6.0cps to 26.5cps^{9,10}.

⁷ As at 31 December 2021

⁸ Pre-tax, assuming a realisation date of 30 June 2022

⁹ Based on an average entry price of \$1.41 per IAP Security and a forecast distribution of \$0.090 for the 2022 financial year

¹⁰ Assuming the Charter Hall Scheme of Arrangement proceeds and is implemented in FY22



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It is envisaged that this transaction will be completed in late FY22, if approved by IAP securityholders.

PMG Funds

Based on feedback from a number of TOT investors, and TOT's strategy of becoming a pure REIT, TOT undertook a review of the suitability of maintaining its investment in PMG.

Post period TOT entered an agreement (subject to TOT and TGP Securityholder approval) to sell TOT's 50% equity interest in PMG Funds to TGP¹¹ for NZ\$21.875m¹². Should Securityholders approve the transaction, TOT will make a pre-tax gain on the sale of 2.0cps, realising a pre-tax IRR of 32.5%¹³.

The benefits to TOT of the proposed sale include:

- ✓ The Proposed Sale would realise a return of 32.5% for TOT securityholders¹³
- ✓ Provide TOT with A\$21.3m of capital to be redeployed¹⁴ in the acquisition of the IAP portfolio
- ✓ Simplifies the investment portfolio of TOT and removes unlisted active/operating business from portfolio
- ✓ Improves transparency of investments for securityholders
- ✓ Positions TOT to be a more traditional A-REIT comparable with its peer set
- ✓ Crystallise intangible asset and allow funds to be deployed into tangible, real estate equity

Proposed Change to Performance Fee Structure

The Responsible Entity is entitled to a performance fee of 20% of any total return more than 12% p.a.

The calculation of total return is based on actual distributions paid to Securityholders plus an increase in the trading price in the relevant financial year multiplied by the number of Securities on issue and the end of the relevant financial year.

Given the refinement of TOT's strategy toward a more traditional A-REIT, subject to the Irongate transaction proceeding, the Responsible Entity proposes to remove the Performance Fee structure upon acquisition of the portfolio of IAP assets in line with fee structures of comparable A-REITs.

Capital Management

The Distribution Reinvestment Plan was active for the September quarter distribution, 0.8m securities were issued at a price of \$0.8651 per security.

TOT has paid fully franked distributions for the first half of FY22.

Assuming the proposed sale of IAP and PMG proceed, going forward TOT will have significant franking credits, allowing the flexibility to pay either fully franked or partly tax deferred distributions.

¹¹ Subject to TOT and TGP investor approval. Includes the transfer of related deferred consideration assets and liabilities.

¹² Excluding the NTA adjustment.

¹³ Pre-tax IRR including dividends received

¹⁴ Purchase consideration plus NTA adjustment less estimated tax payable



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Outlook and Guidance

TOT remains focused on progressing the IAP Transaction and thereby securing a portfolio of well leased, modern properties.

Based on the results achieved in the 6 months to 31 December 2021 and subject to the above Irongate and PMG Funds transactions proceeding, the Responsible Entity is pleased to announce an upgrade in operating earnings guidance from 6.0cps to 26.5cps¹⁵,¹⁶ and reaffirm distribution guidance of 6.0cps (paid quarterly, partly franked), reflecting a 6.3%¹⁷ distribution yield on the current trading price.

Further, TOT provides distribution guidance for FY23 of 6.0cps per annum (paid quarterly, partly franked).

Authorised for release by the Board of 360 Capital FM Limited.

More information on TOT can be found on the ASX's website at www.asx.com.au using ASX code "TOT", at our website www.360capital.com.au, by calling the TOT investor line: 1300 082 130 or by emailing investor.relations@360capital.com.au

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About 360 Capital REIT (ASX: TOT)

The Fund has a diversified portfolio of investments across real estate equity with a demonstrated track record of consistent quarterly distributions, through a selective and disciplined investment philosophy, combined with access to real estate-based investment opportunities available to TOT through the 360 Capital Group, the manager of the Fund.

About 360 Capital Group (ASX: TGP)

360 Capital Group is an ASX-listed, investment and funds management group, focused on strategic and active investment management of alternative assets. Led by a highly experienced team, the Group operates in Australian and global markets investing across real estate and private equity and credit. We partner with our stakeholders to identify, invest and realise on opportunities.

¹⁵ Based on an average entry price of \$1.41 per IAP Security and a forecast distribution of \$0.090 for the 2022 financial year

¹⁶ Assuming the Charter Hall Scheme of Arrangement proceeds and is implemented in FY22

¹⁷ Based on annualised forecast EPS and DPS / closing price of \$0.95 on 23 February 2022