APN | Property Group
ASX ANNOUNCEMENT

21 February 2018

OPERATING EARNINGS[1] UP 37% TO $5.1 MILLION FOR THE PERIOD ENDED 31 DECEMBER 2017

Highlights

- Operating Earnings[1] $5.1 million up 37% from $3.7 million in the prior corresponding period (pcp)
- Operating Earnings[1] 1.67 cents per share (cps) up 37% from 1.22 cps[2] in pcp
- Statutory net profit after tax of $9.6 million up 216% from $3.0 million in pcp
- Funds under Management (FuM) up $264 million or 11%[3] to $2.8 billion from June 2017
- Successful IPO of Convenience Retail REIT (now $327 million in total funds under management)
- Strong and flexible balance sheet with net assets of $119.4 million, including cash of $14.8 million
- Dividend guidance increased to 2.25 cps (from 2.00 cps), interim dividend 1.25 cps (all fully franked)
- Total shareholder return of 31.1%[4] pa (last three years)
- Capital structure including stapling being reviewed

APN Property Group Limited (ASX: APD) (APN or the Group) today reported a statutory net profit for the half year ended 31 December 2017 of $9.6 million. This compares favourably to the prior comparative period result of $3.0 million, an increase of 216%.

Operating Earnings[1] per share was 1.67 cents, an increase of 37% from 1.22 cps[2] in the prior corresponding period (pcp). Statutory diluted earnings per share totalled 3.13 cps compared to 0.31 cps for the period ended 31 December 2016. The directors have declared a fully franked interim dividend of 1.25 cents per share to be paid on 16 March 2018 to those shareholders registered as at 1 March 2018.

APN's Chief Executive Officer, Mr Tim Slattery, said "Our team has delivered an excellent result for the first six months of 2018. We have delivered a 37% increase in APN's operating earnings and an 11%[3] increase on our assets under management since June. We have done this without significantly increasing fund gearing levels or altering our defensive approach to acquisition opportunities in what has been a particularly strong market. APN now has four individual income streams Securities, Direct, Industria and Convenience Retail, each of which have attractive growth prospects either through additional acquisition opportunities or the establishment of new funds."

"While we are wary of the risk of a correction in some parts of the commercial property markets APN is in a strong balance sheet position with nearly $15 million in cash, 37.5 cents of net tangible assets backing per share and little reliance on more volatile transaction and performance fees. We are delighted to be able to

[1] Operating Earnings is an unaudited after tax metric used by management as the key performance measurement of underlying performance of the Group. It adjusts statutory profit for certain non-operating items recorded in the income statement including minority interests, discontinued operations (Europe and Healthcare), business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.
[2] Represents Operating Earnings per Share (EPS) adjusted to exclude the accounting impact of the 10 cents per share special dividend paid in October 2016. On a statutory basis, Operating EPS for the six months to 31 December 2016 was 0.55 cps.
[3] Increase of 6% on 30 June 2017 Pro-Forma FUM of $2.6 billion, refer to FY2017 result announcement for further information.
[4] Per annum as at 31 December 2017. Includes reinvestment of dividends at market price on dividend payment date and divisor adjustment for standardised calculation where required.

again increase our dividend guidance which is now up 80% over five years which illustrates the effective development and execution of our strategy to build the scale of the business."

"Despite some market volatility, our income-oriented commercial property investments remain well supported and continue to be relevant to a very large group of current and potential investors."

"We're in a strong position to capitalise on opportunities which may emerge across the group. While we are actively looking for opportunities, our team is prepared to be patient and take a longer term view on creating value for clients and our shareholders – we remain buyers of value."

Financial Results

Operating earnings[1] for the half totalled $5.1 million with the following factors contributing to this result compared to the pcp:

- An 11% increase in net management fees to $7.1 million, primarily reflecting the successful establishment and IPO of Convenience Retail REIT and a full six month contribution from Industria REIT's September 2016 acquisition of WesTrac Newcastle;
- Income from co-investments increased 78% to $3.6 million for the period following an additional $16.7 million investment to increase the Group's stake in Industria REIT and establish a material co-investment in Convenience Retail REIT;
- Offset by a decrease in rental and other property related income to $0.8 million for the current period, following the sale of 7-Eleven Eagleby (November 2016) and the Service Centre South Nowra (December 2016); and
- Operating costs increased $0.6 million or 10% compared to the pcp following the decision in late FY2017 to increase the resources and capability associated with our Direct Funds management platform, with disciplined cost control on operating costs continuing to be a significant focus of management. These costs include three new full time employees.

The Group's average tax rate declined from 31% to 19% for the period following the finalisation and utilisation of prior period unrecognised capital loss. Non-operating items (net of tax) of $4.4 million were recognised reflecting positive mark-to-market adjustments on APN's co-investment stakes.

APN's balance sheet remains solid. Net assets totalled $119.4 million at 31 December, including cash of $14.8 million, co-investments and investment property of $100.7 million and $24.2 million respectively. Borrowings of $10.5 million and $6.0 million associated with the finance of investment property and co-investment stakes respectively are modest and non-recourse to the other Group assets.

Funds under Management

FuM from continuing operations increased 11%[3] for the half to $2.8 billion.

- **Real Estate Securities**

  Real Estate Securities (RES) FuM increased $127 million, up 8% to $1.7 billion. Net inflows across all strategies contributed $55 million to this increase with the balance of $72 million representing favourable mark-to-market valuation gains. Strong net flows continued for the wholesale AREIT investment mandate, offsetting lower net inflows to the APN AREIT Fund (compared to FY2017). The key driver for this trend was investors rebalancing asset allocations to growth asset following a period of strong returns across the AREIT sector. Momentum continued during the period for the APN Asian REIT Fund, with FuM increasing 51% to $19 million at balance date and surpassing $20 million in January 2018.

- **Industria REIT**

  Industria REIT's (IDR) FuM remained steady at $646 million as at 31 December. Succesful initiatives implemented in the period include moving to paying quarterly distributions, active property management, active capital management through the buy back of securities on-market and significant leasing success through further engagement with tenants. A key asset management achievement was the completion of the Brisbane Technology Park solar initiative that is expected to deliver a 15% yield on cost. IDR's cccupancy remains at 95% with leasing transactions representing ~10,400 sqm concluded during the period, a pleasing outcome that demonstrates the IDR team's focus on tenant engagement is delivering results. IDR's weighted average lease expiry was 7.3 years at balance date and Industria is on track to deliver FY18 Funds from Operations forecast growth of 2 - 3% over FY17 and a distribution yield of approximately 6.5% (as at 31 December 2017).

- **Direct Funds**

  FuM at 31 December 2017 was $124 million ($125 million at 30 June 2017). New leasing transactions for the APN Regional Property Fund delivered strong results with enhanced lease expiry profiles and increased valuations. The APN Steller Development Fund has completed the first 3 of 6 projects were in line with forecasts allowing the first return of 28 cents per security which was paid to fund investors in December while the Fund remains on track to deliver a 18%pa investment return over its life. Disciplined efforts from our expanded direct property team have continued during the period with early signs beginning to emerge of a shift in core commercial property markets and sentiment that we expect to lead to opportunities that will appeal to our core investor base. The Group stands ready, including through the use of APN's balance sheet, to capitalise on such opportunities as they emerge.

- **Convenience Retail REIT**

  Convenience Retail REIT (CRR) successfully listed on the ASX during the period with trading commencing on 27 July 2017 with an initial market capitalisation of ~$237 million. Formed from two of APN's existing unlisted direct funds together with a new portfolio of 25 petrol station sites, CRR is a good example of the benefit to the Group of the Direct funds division which has seeded the new REIT. Since listing CRR has completed two earnings accretive acquisitions and now owns a portfolio of 68 properties valued at approximately $324 million. Funds From Operations (FFO) and distribution guidance have been upgraded from original PDS forecasts. CRR is actively pursuing opportunities to acquire attractively priced assets using its significant existing debt capacity (approximately $26 million).

Strategy, capital management and stapling

The Group's overarching focus remains on maximising returns for shareholders. APN has successfully implemented a co-investment business model which has delivered alignment with fund investors, strong growth in APN's funds under management and strong growth in the company's operating earnings. APN continues to seek to deliver value for shareholders by further increasing the scale and efficiency of its funds management platform, leveraging the extensive real estate expertise across the organisation.

The Group's balance sheet is in a strong position with $14.8 million in cash and total net assets of $119.4 million, and it remains available to secure new growth opportunities. This approach has recently demonstrated clear results for shareholders with the successful pre-IPO capital raising of the APN Retail Property Fund which was subsequently listed on ASX as the $327 million Convenience Retail REIT.

To ensure APN continues to have an optimal capital structure for continued growth, today the Board announced it is reviewing the Group's capital structure and the merits of a stapled structure. It is expected that this review will be concluded by the end of August 2018.

Outlook and guidance

Operating Earnings[1] guidance, on a statutory basis, has been confirmed at 2.35 to 2.65 cps.

Full year dividend guidance has been upgraded by 0.25 cents per share (cps) to 2.25 cps, comprising the 1.25 cps fully franked interim dividend declared today and a forecast fully franked final dividend of 1.00 cps.

In accordance with our guidance practice, only transactions which have been completed or are sufficiently certain are reflected in this guidance and the guidance remains subject to the continuation of current market conditions.

ENDS

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Forward looking statements

This release contains forward-looking statements, estimates and projections, which are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors many of which are beyond APN Property Group's control and which may cause actual results to differ materially from those expressed in the statements contained in this announcement.

About APN Property Group

APN Property Group Limited (ASX code: APD) is a specialist real estate investment manager. Since 1996, APN has been actively investing in, developing and managing real estate and real estate securities on behalf of institutional and retail investors. APN's focus is on delivering superior investment performance and outstanding service. Performance is underpinned by a highly disciplined investment approach and a deep understanding of commercial real estate.

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