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MARKET RELEASE

ASX ANNOUNCEMENT
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Aspen Group FY14 financial results for year ended 30 June 2014; Aspen Parks Property Fund (APPF) entitlement offer and unsolicited approach in relation to APPF

KEY POINTS

- Delivery of Aspen Group strategic goals set at beginning of FY14 well advanced - business simplification, sale of commercial portfolio, sale of development assets, debt reduction and reduced overheads
- Aspen Group FY14 financial results
  - Total operating profit before tax of $14.7 million up 32.2%
  - 2H14 distribution of 4.0 cents per security; full year FY14 distribution of 11.5 cents per security
  - Statutory loss after tax of $81.8 million
  - Debt of $26.8 million and cash holdings of $44.7 million as at 30 June 2014
  - Net Asset Value per security of $1.50
  - Capital management initiatives remain under consideration
- Aspen Parks Property Fund (APPF), managed by Aspen Group, has announced it is undertaking an entitlement offer to raise a minimum of $39.9 million
  - Aspen Group currently holds a 12.5% equity interest in APPF and intends to subscribe for its full entitlement and has fully underwritten the balance of the entitlement offer
- Unsolicited approach received to acquire Aspen Group's equity interest in and management rights of APPF
- Distribution guidance for FY15 of 8.0 to 10.7 cents per security

Aspen Group (ASX:APZ) today announced its financial results for the year ended 30 June 2014, recording a statutory loss of $81.8 million, which principally arose in the first half. Operating profit before tax for the year of $14.7 million was up 32.2% on FY13.

Aspen Group has today also announced that its managed fund APPF has launched an entitlement offer to raise a minimum of $39.9 million. The entitlement offer will strengthen APPF's balance sheet and provide capacity for APPF to undertake future acquisitions. Aspen Group intends to subscribe for its full entitlement based on its 12.5% equity interest and has fully underwritten the balance of the entitlement offer.

The investment by Aspen Group is consistent with its strategy to be a focussed business, with a leadership position in the value for money accommodation industry, which has positive long-term supply and demand dynamics and structural demographic trends, coupled with attractive cash earnings yields.

APPF has a strong market position in the accommodation industry with over a decade of management expertise. The recapitalisation will strengthen and build upon that market position.

Aspen Group Chief Executive Officer Clem Salwin, said, “One year ago, we set our strategic objectives for the year to execute a transition of the business to be focussed on value for money accommodation. The business will be simpler, have lower debt and have a lower cost base. We have made significant progress on these strategic objectives.

“Most of the development assets have been sold or contracted for sale. The greater part of the commercial portfolio has been sold. Debt levels have been significantly reduced and our debt facility has been simplified into a single, lower cost facility. Importantly, as the business has simplified, overhead costs have been reduced markedly and operating costs continue to be reduced.

“Our approach has been to exit non-core operations in a considered manner, in order to maximise value and manage our execution risk. The optimal approach has been to quickly sell some assets – for example the exposure to the office markets in Adelaide and Perth.

“For other assets, such as Noble Park and Spearwood, we are undertaking asset management initiatives to improve realisation value. After successful leasing at the Noble Park industrial property, we are at an advanced state of negotiations for sale. We receive approaches on assets from time to time, and these are assessed carefully in respect of maximising shareowner value, in deciding whether to pursue them or not.

“Likewise, our additional investment in APPF has been assessed carefully, particularly when we see our securities are trading at such a significant discount to NTA. We see this as a value creating opportunity to invest in APPF, as it has an established management platform, is geographically diverse and operates in an industry with strong demographics. There are growth opportunities both within the APPF portfolio and externally.” Mr Salwin said.

Unsolicited approaches in relation to APPF

On 20 June 2014 Aspen Group received a highly conditional proposal from Ingenia Communities Group (ASX:INA) to acquire Aspen's 12.5% equity interest in APPF at APPF's net asset value and the management rights of APPF for $5.0 million. The Board of Aspen Group determined that the proposal did not provide a compelling value proposition for Aspen Group securityholders. Should INA decide to submit to Aspen Group a revised proposal with materially improved terms, it will be considered on its merits, as to whether it is in the best interests of securityholders.

On 12 August 2014 INA advised Aspen Group that it had made a confidential, non-binding indicative proposal to APPF to acquire up to 100% of APPF securities in an all scrip transaction. However, INA advised Aspen Group that its preferred position is its original 20 June 2014 proposal to acquire Aspen Group's equity in, and management rights of, APPF.

The APPF offer document notes that some of its securityholders may be attracted to a compelling cash offer to acquire their APPF securities. To that end, APPF has indicated that it is prepared to engage with INA, and potentially other suitably qualified third parties, to determine if a compelling proposal can be developed. As stated in its offer document, in the meantime APPF intends to continue with its immediate strategic priority of reducing APPF’s LVR via the entitlement offer.

Aspen Group notes that APPF has reserved the right to cancel the entitlement offer in the event that APPF receives a compelling and certain proposal, capable of being put to APPF securityholders, to acquire all the securities in APPF.

Corporate governance arrangements

The Board of Aspen Group, comprising Aspen Group Limited and Aspen Funds Management Limited as responsible entity of the Aspen Property Trust and the Board of Aspen Funds Management Limited as responsible entity of APPF have appropriate corporate governance arrangements in place, including separate board sub-committees, to deal with these unsolicited approaches and the APPF entitlement offer.

APPF has established an Independent Board Committee to consider any matters where actual, potential or perceived conflicts of interest with Aspen Group may arise (Conflict Matters). The APPF (Parks) Independent Board Committee is comprised of Reg Gillard, Hugh Martin and Clive Appleton.

The Conflict Matters that will be considered by the Parks Independent Board Committee include:

- the underwriting arrangements with Aspen Group; and
- a review of any unsolicited proposals received in relation to an offer for APPF securities.

The Parks Independent Board Committee will consider any Conflict Matters solely from the perspective of APPF securityholders. The remaining directors, Frank Zipfinger, Guy Farrands and Clem Salwin, form the Aspen Group Independent Board Committee and will consider Conflict Matters solely from the perspective of Aspen Group.

Details of the APPF investment

Background to the entitlement offer

Established in 2004, APPF is an unlisted property fund with a portfolio of 21 properties across Australia, providing accommodation services in the tourism, resources and affordable permanent housing sector. APPF is one of the leading operators in the accommodation sector. Aspen Group is the manager of APPF and is an equity investor with a 12.5% holding.

Since 30 June 2013, the value of the APPF property portfolio (excluding asset sales) has declined by $63.5 million. This was predominantly driven by reduced demand, and therefore lower revenue and net income, at those properties within the APPF portfolio that serve customers in the resources, and resources-exposed industries.

The decline in portfolio value caused a key measure of the APPF debt position, the loan-to-value ratio (LVR), to increase to 54.8% at June 2014, a level that is close to its debt covenant of 55%. Accordingly the directors of APPF determined that an immediate reduction in APPF's LVR was required. As a result, APPF is undertaking a pro-rata non-renounceable, 1 for every 2 security, entitlement offer to raise a minimum of $39.9 million to initially reduce debt, but also with a view to provide the capacity to expand the portfolio.

The issue price under the entitlement offer is $0.49 per APPF security, which represents a 7.5% discount to the net asset value per security as at 30 June 2014 of $0.53. The current annualised distribution rate is 4.0 cents per security. This distribution is post retention of earnings for ‘stay-in-business’ capex. The distribution represents a yield of 8.2% on the issue price for the entitlement offer. On FY14 results, at the issue price the equivalent cash property yield is 12.7%, or 10.7% post ‘stay-in-business’ capex.

Aspen participation in the APPF entitlement offer

Aspen Group intends to subscribe for its full entitlement of approximately $5.0 million. Aspen Group has also fully underwritten the balance of the entitlement offer at $0.51 per security, which represents a 3.8% discount to the net asset value per security as at 30 June 2014 of $0.53. No fee is being charged in relation to the underwriting. The maximum underwriting commitment is $36.3 million.

Aspen Group will fund this investment from existing cash and debt capacity. Assuming the maximum underwriting commitment, Aspen Group pro-forma gearing would be 4% (pro forma look through gearing would be 17%). This assumes settlement of the currently negotiated sale of the Noble Park property proceeds.

FY14 financial results

Aspen Group recorded a statutory loss for the year of $81.8 million, due largely to the recognition of impairments and losses on assets sold or held for sale in the first half. As announced on 24 July 2014, the second half result was impacted by an impairment attributed to the Spearwood Industrial Estate.

Total operating profit for the FY14 year was $14.7 million, up 32.2% on FY13. Gearing is nil at 30 June 2014, providing the financial capacity to invest in APPF.

The Net Asset Value at 30 June 2014 was $1.50 per security.

The business simplification strategy has resulted in a significant reduction in total overheads during the year, down $5.6m for the full year on FY13, with employee numbers having reduced by 54% since July 2013.

Continuing operations

Aspen Group's continuing operations are in the accommodation sector, comprising the ownership of the Aspen Karratha Village and management of, and co-investment in, APPF.

Following the extension of the lease with Woodside at Aspen Karratha Village for a period of two years (effective from 30 January 2014), the facility continues to trade in line with expectations. Occupancy is currently 90%. Operating costs have been reduced with a combination of out-sourcing the food and beverage service, as well as other operating efficiencies.

Aspen Group generated fee revenue of $3.8 million from APPF, down 39.4% on FY13, arising from lower asset management fees and acquisition and development fees.

Discontinued operations

Aspen Group commenced a sale process in November 2013 for its commercial and industrial property portfolio. Aspen Group successfully concluded the sale of the interest in the ATO Building and Septimus Roe building during the year, with proceeds applied to debt reduction.

Asset management at Noble Park has seen execution of a new ten year lease for approximately 9,000 sqm at the property and, as a result, advanced negotiations for the sale of the property are underway.

The focus for maximising the value of the Spearwood Industrial Estate is managing the upcoming lease expiry for approximately 62,000 square metres of warehouse space in December 2014 and achieving the property's environmental reclassification.

The 2014 financial year has seen Aspen Group substantially exit from its residential and development syndicates with the settlement of the remaining englobo sites at the Dunsborough Lakes project and Fern Bay Seaside Village development, while the ADF Adelaide landholding is unconditionally contracted for sale, leaving a residual exposure of $6.8 million to sell across undeveloped landholdings.

Capital management

At 30 June 2014 Aspen Group's senior debt facility was drawn to $26.8 million, down from $117.5 million at 30 June 2013. Gearing (net of cash) is nil at 30 June 2014, significantly reduced from 30 June 2013 (33.5%). Cash holdings stood at $44.7 million as at 30 June 2014.

Subsequent to year end, Aspen Group has received amended debt facility terms from its primary financier which will increase the available debt facility up to $50.0 million and extend the debt term by 12 months to August 2016. Detailed documentation is underway.

During the year, all syndicate debt facilities and convertible note facilities were repaid and Aspen Group's guarantee of syndicate debt facilities was extinguished.

Aspen Group declared a distribution of 4.0 cents per security for the second half, with the distribution payable on 26 August 2014.

Outlook and Summary

Aspen Group advises its distribution per security guidance for FY15 is in the range of 8.0 to 10.7 cents per security.

This range is largely dependent on the successful leasing at the Spearwood property post December 2014. It assumes that the currently negotiated sale of Noble Park property proceeds, pro forma gearing is 4% (pro forma look through gearing of 17%) and no material change in business conditions. Distribution guidance may vary depending on the level of take-up of the APPF entitlement offer and Aspen Group's resulting underwriting commitment. This range is based on no third party take-up of the APPF entitlement offer. There is no certainty as to the level of take-up and distribution guidance will be updated if it materially varies post the APPF entitlement offer.

Aspen Group Chief Executive Officer Clem Salwin, said, "As we move into FY15, our focus is to finalise the exit from the remaining non-core assets, and deliver on the value creation opportunities provided by our position in the accommodation sector. We continue to actively pursue, and remain open to, all opportunities to create value for shareowners."

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