

FOLKESTONE
EDUCATION TRUST
(ASX:FET)

FY15 RESULTS



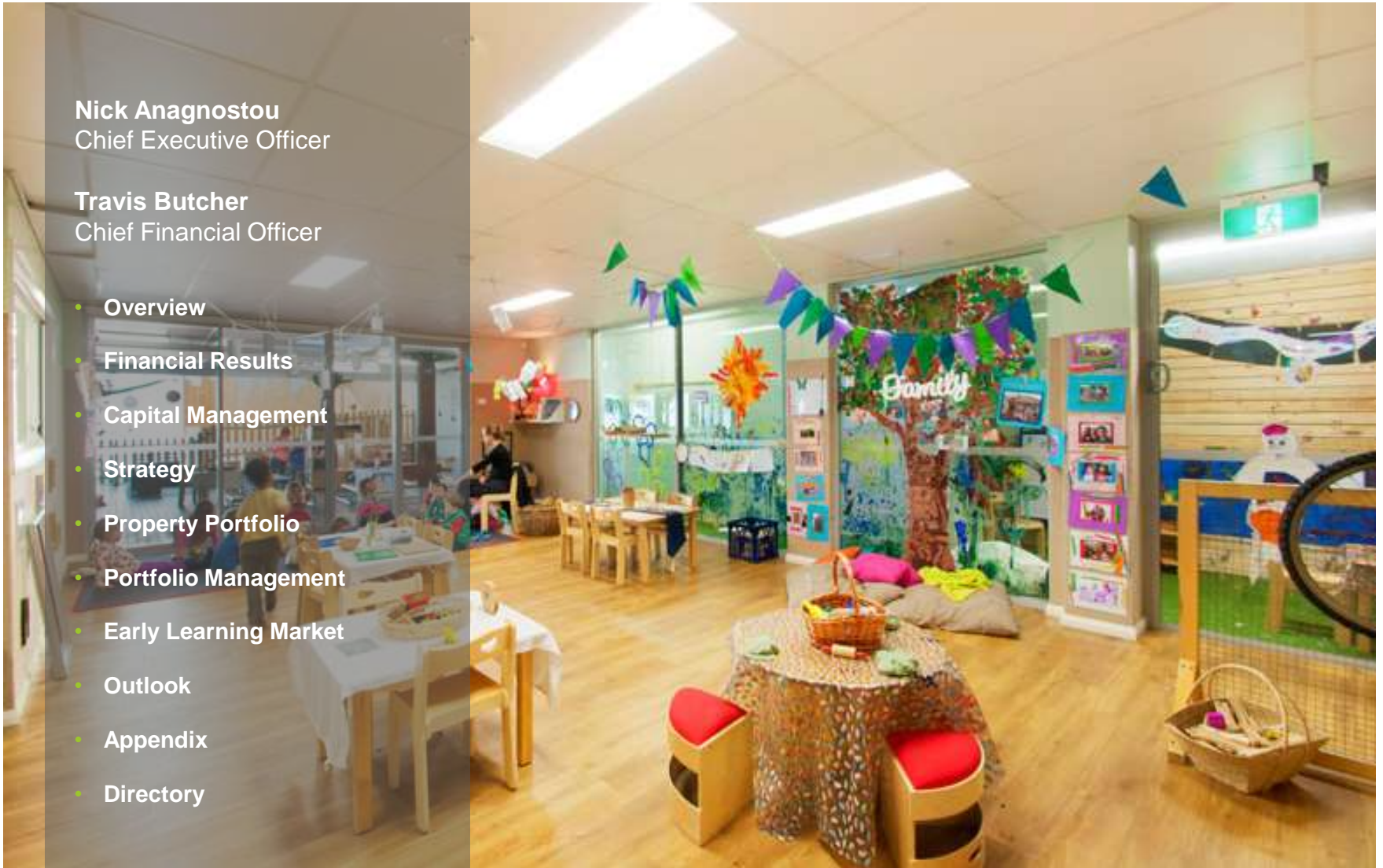
Folkestone
EDUCATION TRUST







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Nick Anagnostou
Chief Executive Officer

Travis Butcher
Chief Financial Officer

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SECTOR		FET
Strong Industry Fundamentals for Operators		<ul style="list-style-type: none"> • Solid operational occupancy and financial metrics • Enhanced Government support • No substitute for childcare
Strengthening Demographic Impact		<ul style="list-style-type: none"> • Compounding population growth & increasing densities • Workplace logistics now harder, creating further demand • Increased recognition of early learning drives higher take-up rates
Acceptance of Sector & Childcare Assets		<ul style="list-style-type: none"> • The imperative of childcare and resultant social & economic benefits, now better understood • Increased Government support confirms sector's importance • Childcare now acknowledged as a legitimate industry & asset class
Real Estate with Multiple Value Drivers		<ul style="list-style-type: none"> • Geographic diversity and alternate use profile provide opportunity • Land rich nature provides a second value driver • Incentive free, net effective income stream
Strong Investor & Operator Demand		<ul style="list-style-type: none"> • Opportunity to manufacture product and provide value enhancement • Asset recycling provides portfolio turnover and profit • Yield compression evidence of the sector's strength
Capital Markets		<ul style="list-style-type: none"> • Lower gearing levels & reduced cost of debt • Low inflation but higher capital growth • Stable balance sheet and predictable distributions

FULL YEAR PERFORMANCE REVIEW

FY15 - EXECUTION DRIVING OUTPERFORMANCE

\$88.6m
Net Profit
+64.7%



\$29.7m
Dist. Income
+21.7%



13.3 cpu
EPU¹
+4.8%



12.8 cpu
Distribution
+6.7%



\$1.82
NTA
+21.3%



35.8%
Total Return

PORTFOLIO MANAGEMENT

Systematic Portfolio Growth & Reweighting

\$29.3m
Divestments (settled & contracted)

+\$100m Assets
FST Transaction Complete

18
Developments Contracted

+\$89.5m
Acquisition/Development Pipeline³

ASSET MANAGEMENT

Strategically Adding Value

7.9 Yrs / 99.7%
WALE / Occupancy

+\$59.2m
Increase in Valuations

-130bps
Yield Compression²

50 of 55 Leases Renewed. New Deals Pending on Remainder

CAPITAL MANAGEMENT

Maximising Unitholder Value

4.6% pa
Cost of Debt

29.5%
Gearing

52%
Average Hedged Debt until FY20

Minimal Capex and Zero Incentives

¹ Distributable income divided by the weighted average number of units on issue

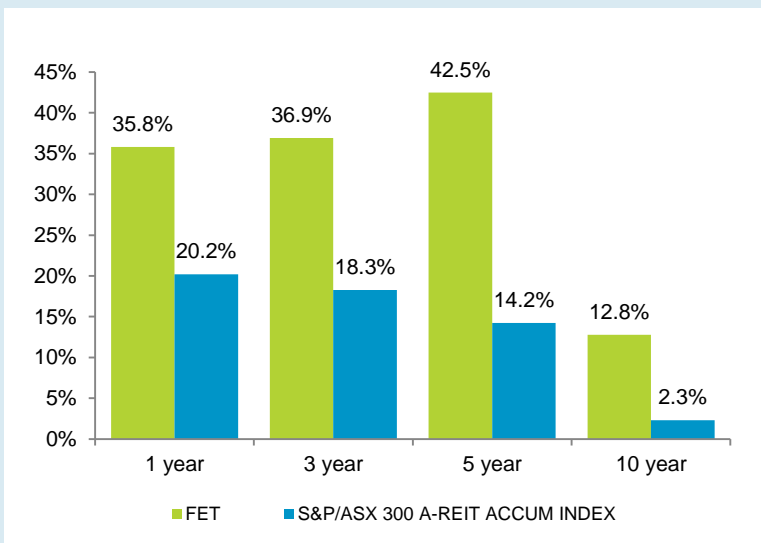
² Freehold independent childcare valuations

³ Includes contracted developments since 30 June 2015 of \$9.5 million

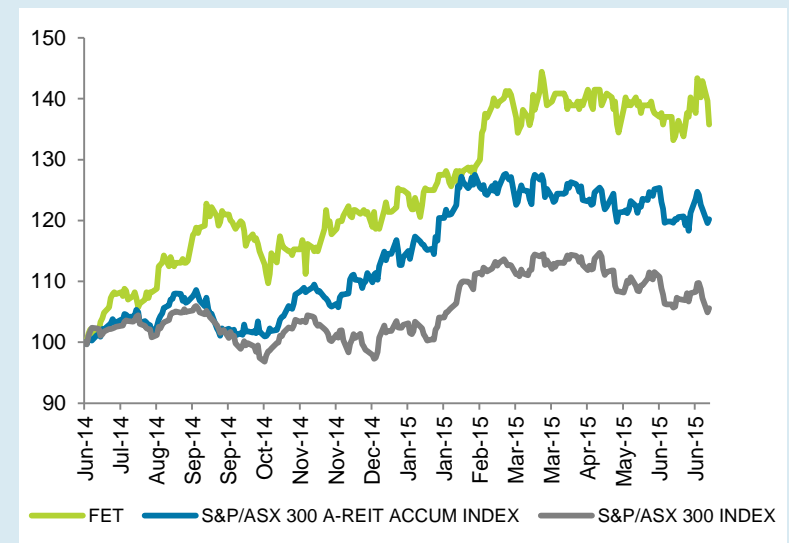
FET'S PERFORMANCE

- FET has consistently outperformed the S&P/ASX300 A-REIT Accumulation Index across 1, 3, 5 and 10 year periods. FET ranked 1st over 3 years, 2nd over 5 and 10 years and 3rd over 1 year¹
- Performance achieved by maintaining the strategy and focusing on asset, portfolio and capital management disciplines
- Underpinned by sound real estate and childcare industry fundamentals and FET's pipeline of growth prospects

FET TOTAL RETURN PERFORMANCE VS S&P/ASX 300 A-REIT INDEX: TO 30 JUNE 2015



FET UNIT PRICE V S&P/ASX 300 AND A-REIT INDICES: 12 MONTHS TO 30 JUNE 2015



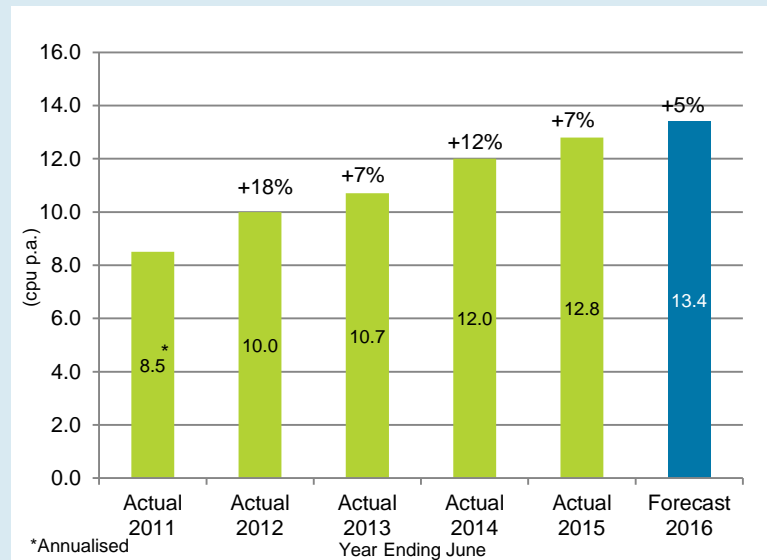
DELIVERING VALUE THROUGH OUTPERFORMANCE

¹ UBS Australian REIT Month in Review – June 2015

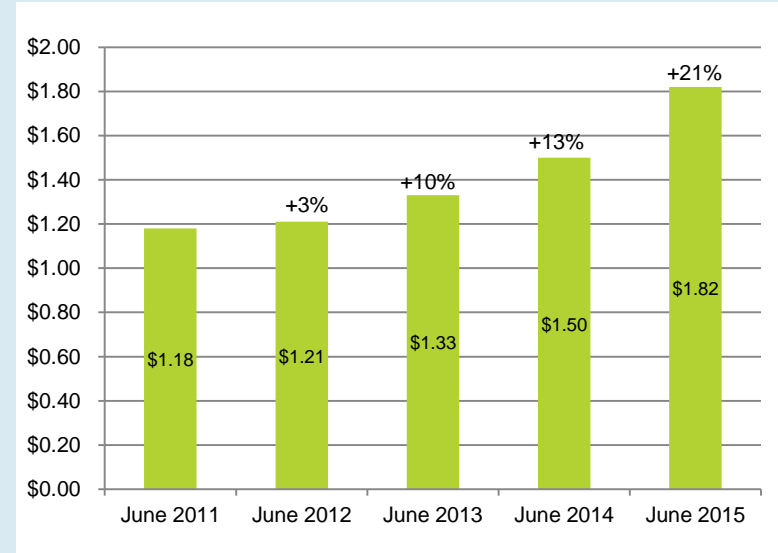
FET'S PERFORMANCE

- Distribution growth – average 10.8% p.a. since 2011 – driven by disciplined capital, portfolio and asset management, complementing a sound portfolio of well located and leased assets
- NTA growth - average 11.4% p.a. since 30 June 2011

DISTRIBUTION GROWTH CPU: 2011 - 2016



NTA GROWTH \$ PER UNIT: 2011 – 2015



DELIVERING ON STRATEGIES DRIVES GROWTH IN PERFORMANCE

FINANCIAL RESULTS



INCOME STATEMENT

- Statutory profit of \$88.6 million, up 64.7% on pcp:
 - distributable income of \$29.7 million, an increase of 21.7% on pcp
 - acquisitions and rental growth have grown lease income by \$8.8 million or 23.0% on the pcp
 - expense growth of 23.8% due to increase in both portfolio size and other expenses of \$1.3 million
 - other expenses includes \$0.8 million in relation to income tax payable on New Zealand portfolio (tax losses fully utilised in FY14) and increased legal / consultant costs in relation to new developments
 - statutory profit includes property valuations, mark-to-market (MTM) adjustments of hedges, capital items or non-recurring items
 - yield compression and rental growth combine to contribute \$59.2 million in property revaluations
- FY15 distribution of 12.8 cents per unit, an increase of 6.7% on pcp
- FY16 distribution forecast at 13.4 cpu, up 4.7%

INCOME STATEMENT FOR THE YEAR	JUNE 2015 (\$m)	JUNE 2014 (\$m)
Lease income	47.0	38.2
Property outgoings	7.0	6.3
Other income	0.7	0.1
Total operating income	54.7	44.6
Finance costs	9.4	8.1
Property outgoings	10.0	8.7
Responsible entity's remuneration	3.4	2.5
Other expenses	2.2	0.9
Total operating expenses	25.0	20.2
Distributable income	29.7	24.4
Net revaluation increment of properties	59.2	29.2
MTM adjustments of hedging positions	(2.0)	(0.2)
Gain on sale of investment properties	3.2	0.3
Merger costs	(1.4)	-
Other	(0.1)	0.1
Statutory profit¹	88.6	53.8
EPU ² (cpu)	13.3	12.7
Distribution (cpu)	12.8	12.0

¹ Excludes a loss of \$1.0 million (FY14: nil) in relation to fair value adjustments of securities

² Distributable income divided by the weighted average number of units on issue

BALANCE SHEET

- Strong balance sheet:
 - acquisition of FST in January 2015 resulted in an increase of assets of \$100.1 million and liabilities of \$25.4 million, for consideration of 37.5 million FET units
 - property revaluations of \$59.2 million driven by yield compression and annual rent escalation
 - property acquisitions of \$34.8 million across 1 completed centre and 8 development sites
 - property disposals of \$18.9 million (carrying value at 30 June 2014) in relation to the settlement of 18 properties resulting in a \$3.2 million profit
 - securities include investment in listed Arena REIT of \$15.9m and unlisted FCIB of \$8.5m
 - negative mark-to-market impact of derivatives of \$5.3 million due to declining interest rates
- NTA per unit increased 21.3% to \$1.82 per unit on pcp
- Gearing reduced to 29.5%

BALANCE SHEET AS AT	JUNE 2015 (\$m)	JUNE 2014 (\$m)
Cash	1.0	1.8
Investment properties – to be sold	6.0	7.9
Investment properties – improved properties ¹	585.5	437.3
Investment properties – development sites	35.4	16.0
Securities	24.4	-
Other assets	2.2	1.6
Total assets	654.5	464.6
Trade and other payables	3.8	2.8
Distribution payable	8.1	6.3
Borrowings ²	192.3	145.7
Derivative instruments	5.3	3.1
Total liabilities	209.5	157.9
Net assets	445.0	306.7
No of units	245.2	205.1
NTA per unit (\$)	1.82	1.50
Gearing³ (%)	29.5	31.7

¹ Includes \$0.3 million (30 June 14: \$0.7 million) of transaction costs in relation to properties not settled

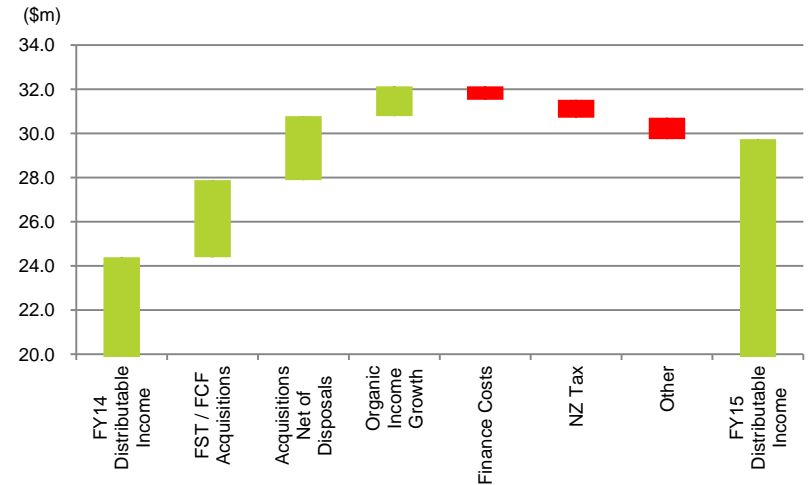
² Borrowings as at 30 June 2015 include loans of \$190.0 million and overdraft of \$3.2 million, less unamortised transaction costs of \$0.9 million

³ Gearing is calculated by borrowings and bank overdraft / total assets

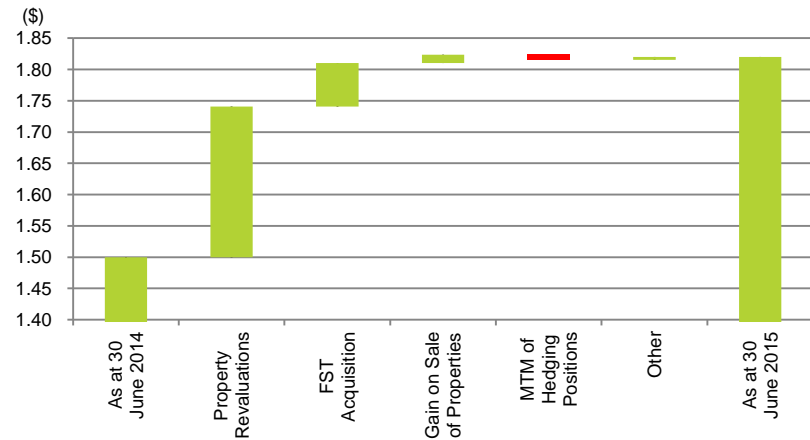
PROFIT & NTA CONTRIBUTIONS

- Improvement in FY15 distributable income due to:
 - FST transaction which contributed \$2.9 million for ~6 months since January 2015
 - FCF acquisition (acquired Dec 13) contributed an increase of \$0.6 million for the full year
 - lease income increase of \$4.0 million which comprises growth on existing properties of \$1.2 million and new income on development properties of \$3.5 million partially offset by reduced income on disposed properties of \$0.7 million
- Growth in NTA per unit of \$0.32 primarily due to:
 - property revaluations of \$59.2 million or \$0.24 per unit
 - successful FST transaction resulting in uplift of \$17.1 million or \$0.07 per unit

DISTRIBUTABLE INCOME: FY14 TO FY15



NTA PER UNIT: FY14 TO FY15



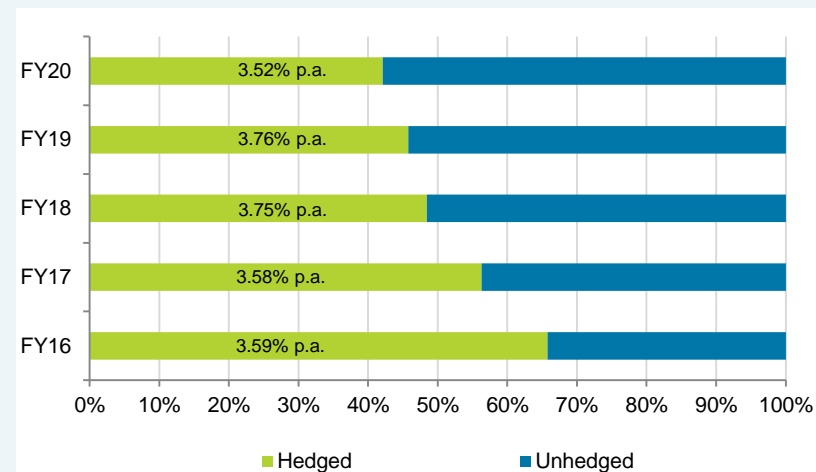
CAPITAL MANAGEMENT



CAPITAL MANAGEMENT – DEBT & HEDGING

AS AT 30 JUNE	2015	2014
Debt Facilities Limit (\$m)	207.3	173.0
Debt Drawn Amount (\$m)	190.0	147.0
Overdraft Facilities (\$m)	12.0	10.0
Facilities Maturity	June / July 2017	June 2017
ICR (x)	4.6	4.4
Cost of Debt (% p.a.)	4.6	5.1
All-in Cost of Debt ¹ (% p.a.)	5.0	5.6
Average Interest Rate Hedged (%)	52	42
Average Hedged Rate (% p.a.)	3.64	4.29
Average Hedging Maturity (years)	2.8	2.3

HEDGING PROFILE: BASED ON DEBT OF \$190.0 MILLION AS AT 30 JUNE 2015



- FST facility of \$34.3 million retained following merger, with maturity of July 2017
- Undrawn facility of \$17.3 million which will be utilised to fund the development pipeline
- Management will look to extend maturity of the facility during FY16, including evaluation of longer maturity debt options
- As at 30 June 2015, FET had hedged \$125 million (66%) of the debt at a fixed rate of 3.59% pa for FY16

¹ Includes amortisation of deferred borrowing costs

STRATEGY



Strategy	Implementation
<p>Maintain 100% Focus</p>	<ul style="list-style-type: none"> FET invests only in early learning opportunities Management focus is on one specialised industry & value enhancement initiatives
<p>Enhance FET's Intellectual Property</p>	<ul style="list-style-type: none"> FET has invested heavily in demographic data and industry analysis as a value creation tool Drives quality sites, designs and strong underlying fundamentals that childcare operators compete for
<p>Use the Demographics</p>	<ul style="list-style-type: none"> Follow population & density growth Identify high success locations Challenge the opportunity and verify to internally developed criteria
<p>Development Provides Value Enhancement</p>	<ul style="list-style-type: none"> Implement FET "best site, best lease, best operator" criteria Development pipeline growing. New developments drive earnings growth, asset quality & development profits Added earnings, WALE and rental uplift
<p>Recycle Capital</p>	<ul style="list-style-type: none"> Recycling generates profit, turnover and reduces obsolescence Sales provide capital for new developments at an arbitrage Sales ensure "best fit" for remaining portfolio
<p>Increase Sector Involvement</p>	<ul style="list-style-type: none"> FET advised Federal Government on recent funding proposal Operator relationships and industry reach significantly enhanced FET seen as 'go to' accommodation provider for childcare
<p>Disciplined Capital Management</p>	<ul style="list-style-type: none"> Maintain strong capital position/balance sheet flexibility Lower the long term cost of debt Manage costs effectively

PROPERTY PORTFOLIO

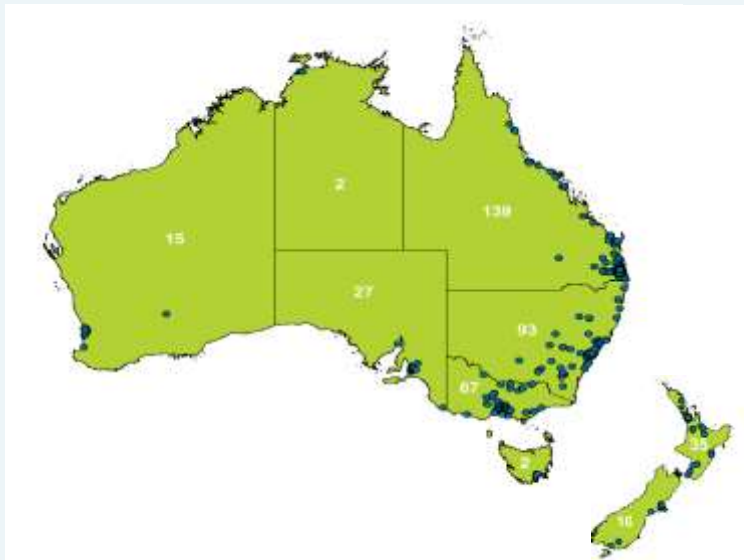


PROPERTY PORTFOLIO

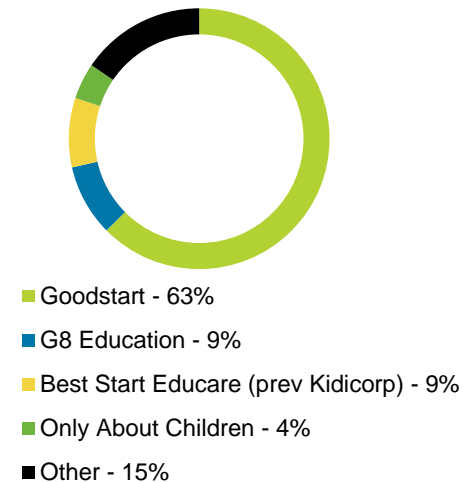
- 396 properties, triple net leases, net effective rents
- Land rich – 89.6 hectares of land (including 9.6 hectares in NZ)
- FET freehold investment value equivalent to \$680 per sq.m. of land in Australia and \$576 per sq.m. in New Zealand
- Enhanced tenant register – 25 tenants and 99.7% portfolio occupancy
- WALE diminishment minimised from 8.0 years at June 2014 to 7.9 years through acquisitions and option take up success
- Business value of operators inherently linked to lease term

AS AT 30 JUNE 2015	NO.	VALUE (\$M)	PASSING YIELD (%)
ACT/NSW	75	135.4	7.3
QLD	133	210.6	8.2
VIC	53	100.9	7.2
SA	20	22.4	9.0
WA	14	21.5	8.1
TAS/NT	4	6.5	7.9
New Zealand	51	55.5	7.5
Total Freehold	350	552.8	7.8
Leasehold	33	28.0	13.3
Total Operating	383	580.8	8.0
Developments	12	35.4	
Medical	1	10.8	6.6
Total	396	627.0	

FET LOCATIONAL SPREAD



TENANT PROFILE BY % OF ANNUAL RENT: JUNE 2015



PROPERTY PORTFOLIO – VALUATIONS

- Properties independently valued on a rolling 3 year basis, supplemented with Directors valuations
- 131 early learning properties independently valued showed an increase of 15.2% over 30 June 2014 Directors valuations
- Strong growth in eastern seaboard states and New Zealand, driven largely by yield compression and annual rental growth
- Director valuations adopted for a further 228 properties to reflect parameters provided by independent valuations

INDEPENDENT VALUATIONS	NO. OF PROPERTIES VALUED	CARRYING VALUE (\$m)	MOVEMENT (%)	YIELD (%)
QLD	35	51.0	16.3	8.1
NSW/ACT	29	49.1	22.3	7.0
VIC	22	37.5	14.8	7.2
SA	8	7.1	2.7	9.0
WA	3	3.9	3.9	8.0
New Zealand	21	24.9	15.2	7.4
Total Freehold	118	173.5	16.5	7.5
Leasehold	13	8.6	(6.8)	15.5
TOTAL	131	182.1	15.2	7.9

DIRECTOR VALUATIONS	NO. OF PROPERTIES VALUED	CARRYING VALUE (\$m)	MOVEMENT (%)	YIELD (%)
QLD	98	159.6	14.0	8.1
NSW/ACT	43	66.5	17.1	7.3
VIC	31	63.3	13.7	7.2
SA	12	15.3	3.9	8.9
WA	10	15.0	5.0	8.3
TAS/NT	4	6.5	5.1	7.9
New Zealand	30	30.5	2.0	7.6
TOTAL	228	356.7	12.3	7.7

PROPERTY PORTFOLIO – MARKET PLACE

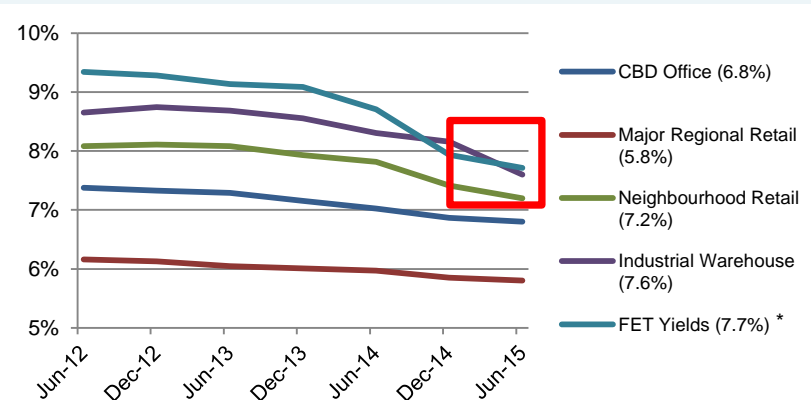
- Further evidence of the acceptance of childcare as a legitimate investment class with almost \$400m in market transactions (excl. FET) over last 4 years
- Influenced by strong industry performance, recognition of the imperative of childcare and confidence provided by the government's increasing support
- Yield compression continued during FY15, with further tightening expected in FY16
- Investor interest in the real estate extends toward the potential upside in the underlying land component as well as the income yield
- Rental growth is expected to continue as demand outstrips supply in some locations
- Net effective nature of income stream seen as a major attraction by investors

CHILD CARE CENTRE SALES YIELDS: FY14 & FY15

	NO. SALES	FY14 YIELD (%)	NO. SALES	FY15 YIELD (%)	CHANGE (BPS)
VIC	18	7.6	7	6.9	-70
NSW	21	7.1	20	6.1	-100
QLD	11	8.2	16	7.0	-120
Total	50	7.5	43	6.6	-90

Source: Valuers and Marketing Agents

FET PASSING YIELD V ALTERNATE SECTORS: FY13 - FY15

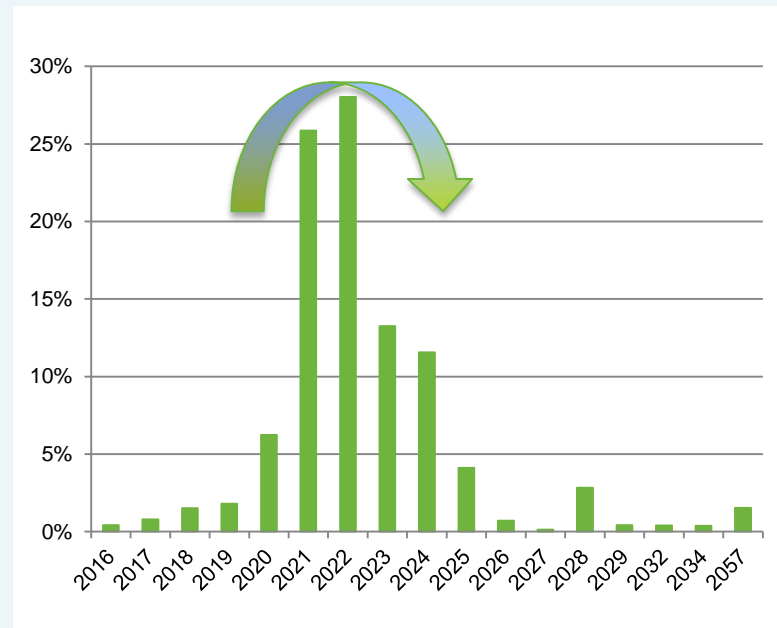


* FET yields based on freehold properties held since 2012
Source: MSCI IPD, Folkestone

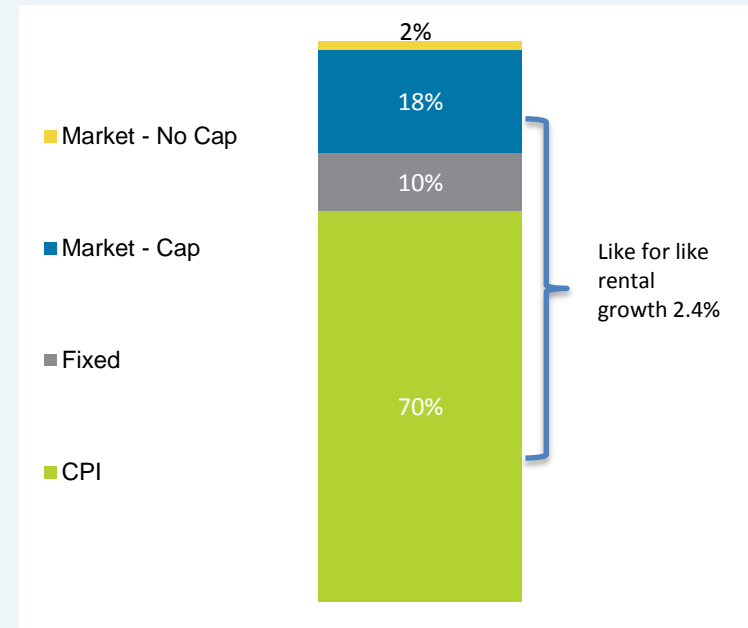
PROPERTY PORTFOLIO – ASSET MANAGEMENT

- 50 of 55 five year options renewed, increasing lease terms to 10 years, resulting in lease expiries otherwise due in 2019, extended to 2024
- Management are in negotiations for the remaining 5 assets to assess to provide a value enhanced option. These may be extended to new longer term leases
- Market rent reviews were negotiated for 54 leases. 51 were subject to a cap of 5% achieving a 4.2% increase. The remaining 3 reviews (without a cap) achieved a 5.1% increase.
- 15 rent reviews for FY15 are currently under negotiation. Of these 11 have a cap of 5% with the remaining 4 having no cap

LEASE EXPIRY PROFILE (CALENDAR YEAR) BY % OF ANNUAL RENT: 2016 - 2057



LEASE RENTAL GROWTH PROFILE: FY15



PROPERTY PORTFOLIO – OTHER FET ASSETS

- Folkestone CIB units and the Melton medical centre were acquired in January 2015 as a result of the FST acquisition. These are non-core assets and subject to portfolio management initiatives, are expected to be disposed of during FY16.

ASSET	VALUE (\$m)	% OF TOTAL ASSETS	DESCRIPTION
Folkestone CIB Units	8.5	1.3	15% ownership of a wholesale trust that owns 9 police stations and 2 courthouses leased to the Victorian government
Melton Medical Centre	10.7	1.7	Medical centre located in Melton, Victoria leased to Primary Healthcare
Arena REIT Units	15.9	2.4	4.5% interest in ARF which invests predominantly in early learning
TOTAL	35.1	5.4	

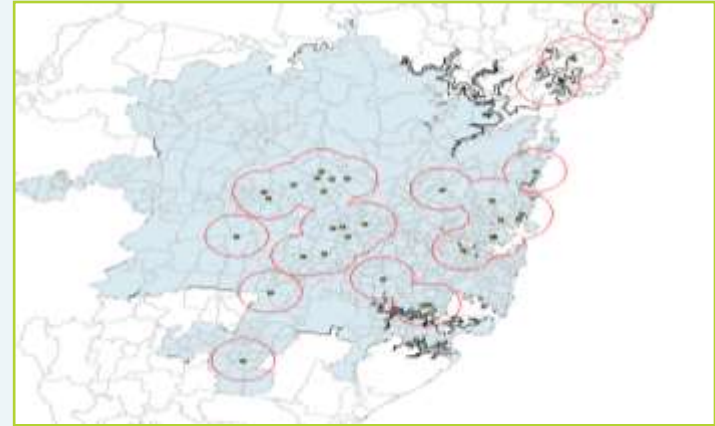
PROPERTY PORTFOLIO - FET NETWORK

FET'S NETWORK IS POSITIONED FOR GROWTH

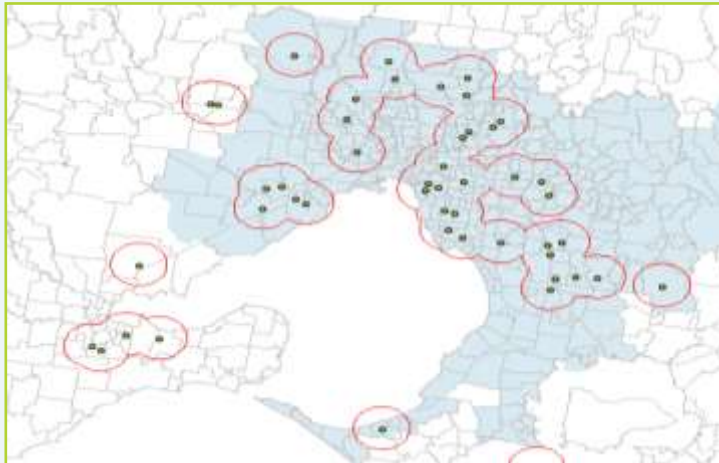
- More than half of all Australians (53.5%) live within 5km of an FET centre
- 61% of Australia's population growth to 2021 is expected to be within LGAs of the existing FET network
- By 2021, existing FET catchments are expected to have grown by an additional 1.5 million people
- Average age of Australians is 37. Average age within FET catchments is 35

Source: MacroPlan Dimasi

SYDNEY



MELBOURNE



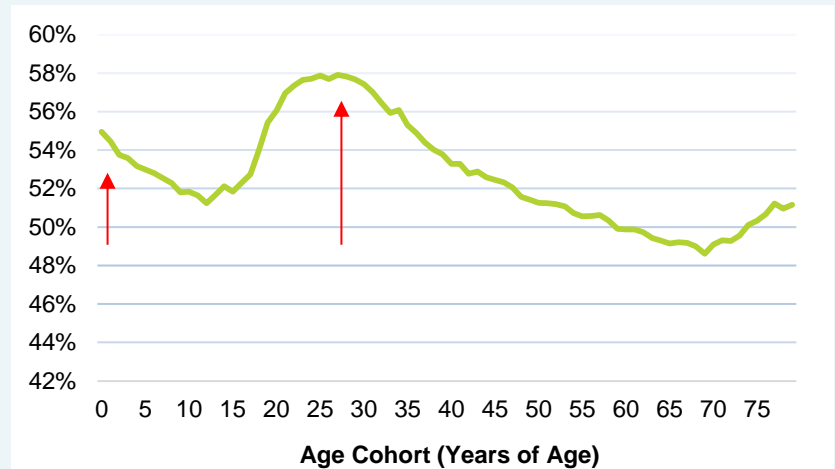
BRISBANE



FET'S EXPOSURE TO GROWTH

- FET focuses on accessing the key demographic market: young families and sources of employment
- The median age within FET's catchments is lower than the Australian average by 2 years
- Approx. 55% of 0-5 year and 20-40 year olds located within 5km of existing FET network
- Since 2012, there have been approx. 970,000 new residential dwelling approvals within 5km of an FET centre
- Over 150 FET centres have had between 1,001 and 5,000 new residential dwelling approvals within a 5km radius over the past 3 years
- 20 FET centres located in areas with over 10,000 approvals within 5 km over the past three years

SHARE OF AUSTRALIA'S AGE GROUPS WITHIN 5KM OF AN FET CENTRE



Source: MacroPlan Dimasi, Folkestone

PORTFOLIO MANAGEMENT

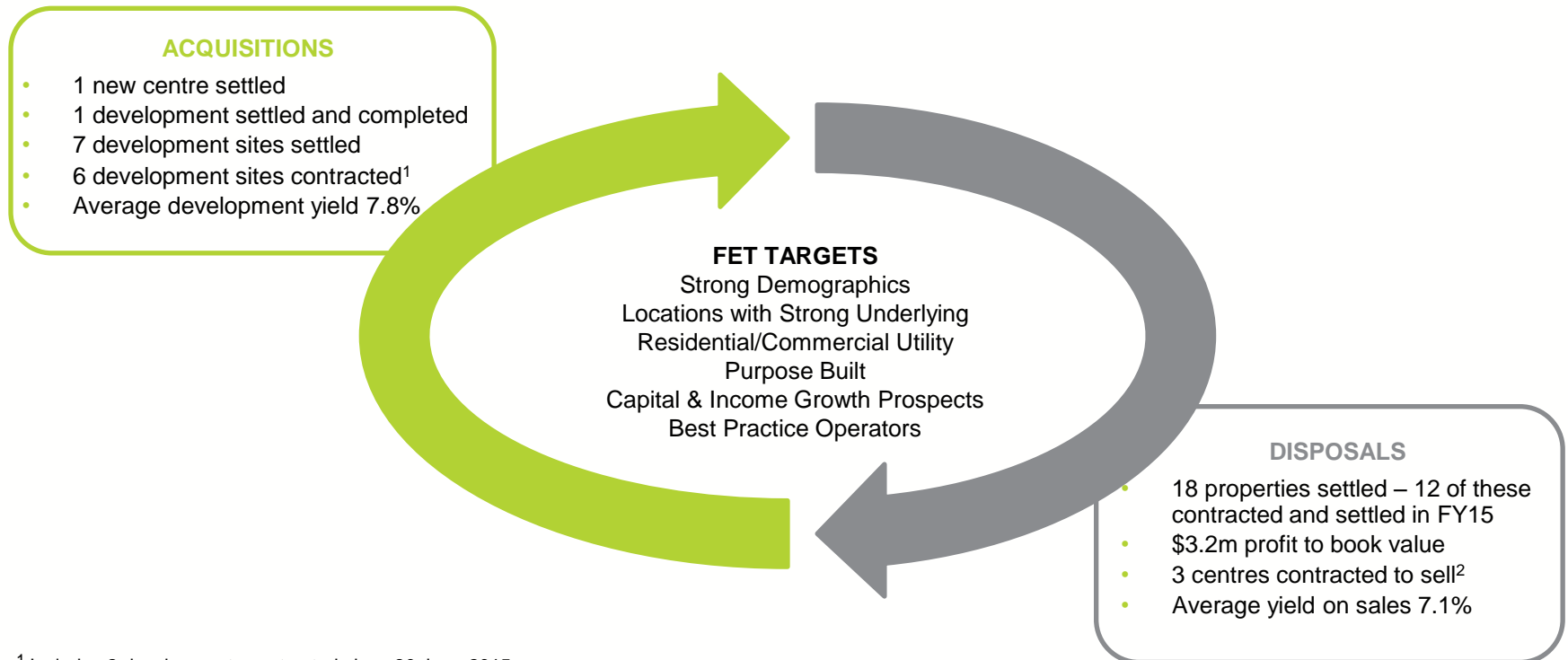


PORTFOLIO STRATEGY

- **Earnings Quality** - FET's portfolio strategy is driven by activity that enhances earnings, provides additional quality to the portfolio and maintains the competitive advantage of childcare assets
- **Real Estate Fundamentals** - Long term leases, minimal capital expenditure, net effective rents and dominant underlying land values provide a sound and uncomplicated investment case
- **Substantiation** - FET's strategy focusses on population and density growth. FET has invested significantly in its intellectual property to maintain its competitive advantage in selecting opportunities that meet its criteria
- **Coherent Strategy** - the portfolio, capital and asset management strategies are executed effectively to deliver FET's objectives
- **Target** - FET has targeted both inner city and outer metropolitan opportunities due to their specific attributes. Inner city sites are underpinned by high land values and should provide greater rental growth and yield compression over time. The outer sites provide growth however, at a higher yield and lower overall cost
- **Development** - provides a higher yield on cost relative to existing centre purchases and enhances earnings, portfolio quality but also attracts quality operators who compete for prime sites
- **Recycling** - capital recycling through disposition and development refreshes the portfolio and provides an arbitrage in yield as the funds are deployed
- **Growth** - FET will continue to target opportunities that meet with this criteria and expects its pipeline to grow over FY16

ASSET RECYCLING

- Asset recycling program focuses on enhancing portfolio and earnings quality. Micro market analysis is a key to asset selection/divestment and value enhancement
- Recycling capital to new developments is expected to provide higher long term rental and value growth, superior sites, stronger underlying demographics and enhanced lease rent profiles, to those sites being sold
- Arbitrage in yield between existing and development centres is being maximised
- Reduced obsolescence



¹ Includes 2 developments contracted since 30 June 2015

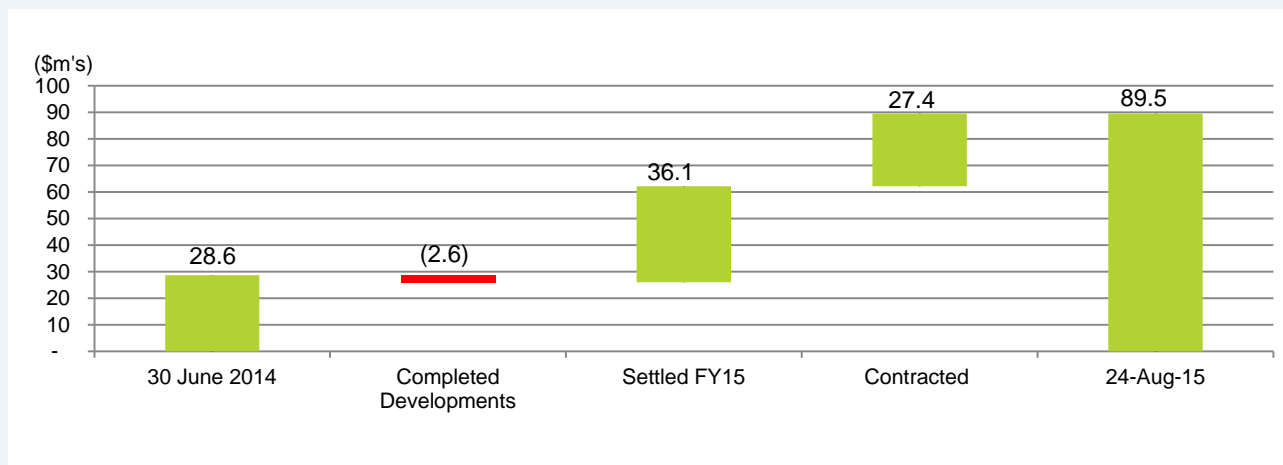
² Includes 3 sales contracted since 30 June 2015

CURRENT DEVELOPMENTS

FET PIPELINE

- FET has acquired properties, with a total end value of in-excess of \$124 million since commencing its acquisition program in October 2013 across 6 existing centres and 13 development sites. This excludes the FST / FCF portfolio transactions that had a total value of \$126 million
- Since 30 June 2014, FET has settled 8 development sites with an end value of \$36.1 million
- One existing centre in Gungahlin, ACT was purchased for \$5.4 million and settled during the year
- One development site, Baldivis, WA was completed in July 2014 with an end value of \$2.6 million. Another development site at Armadale, Victoria was completed in August 2015 with an end value of \$6 million
- A further 6 development sites are currently under contract with an end value of \$27.4 million
- Current total development pipeline value is \$89.5 million which has increased from \$28.6 million at 30 June 2014

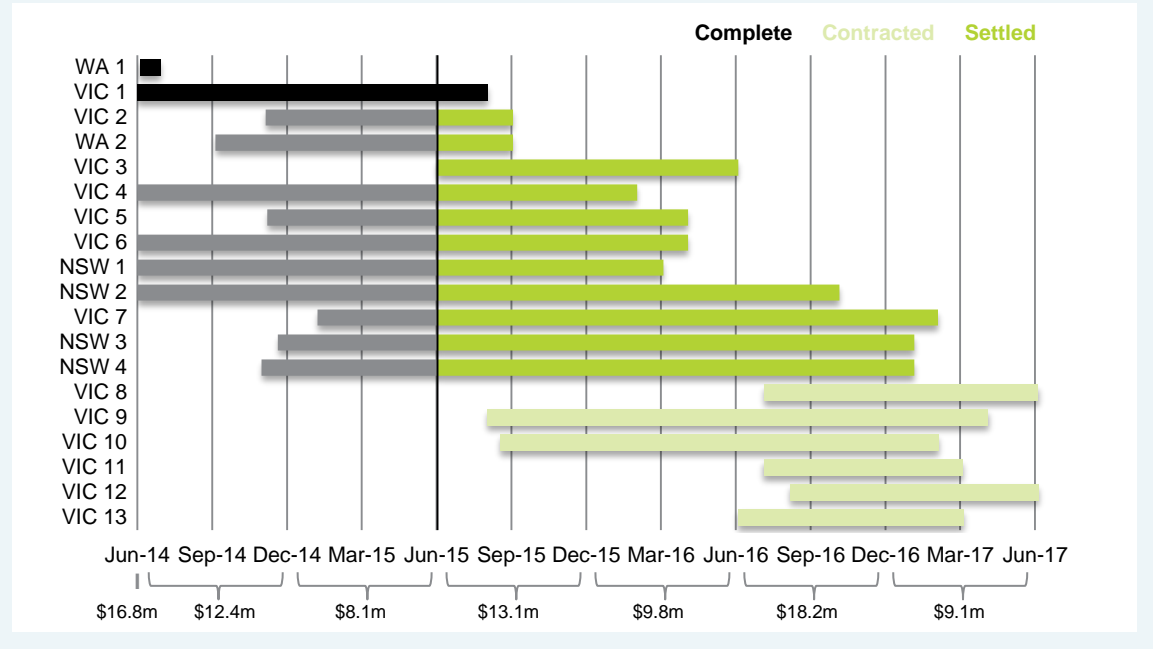
DEVELOPMENT PIPELINE EXPANSION: 2014-2015



CURRENT DEVELOPMENTS

- As at 30 June 2015, FET owns 12 development sites with a forecast development cost of \$63.1 million of which \$37.3 million had been spent
- Of the 12 sites, one was completed in August 2015 and two are due for completion by September 2015
- For FY16, so far, FET has a further 6 development sites contracted for settlement with a forecast development cost of \$24.4 million
- By June 2016, a further 5 development sites are due for completion with the remainder due to complete by June 2017
- FET has additional acquisition targets of \$25 million already identified
- Each development site provides FET with a return on development funds deployed throughout the development period

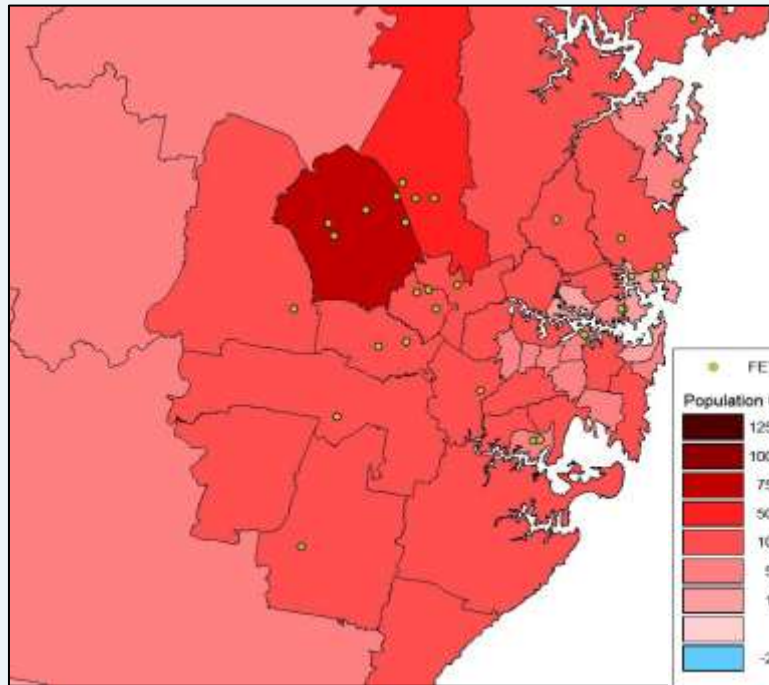
DEVELOPMENT PIPELINE COST TO COMPLETE: 2014 – 2017



POPULATION GROWTH

- Sites are targeted within a ~15km radius of CBDs and rapidly expanding growth areas where population growth is expected to be high
- Existing FET centres are well positioned to benefit from forecast population growth within key eastern seaboard locations

POPULATION GROWTH: 2011-2021
SYDNEY



POPULATION GROWTH: 2011-2021
MELBOURNE



ACQUISITION CASE STUDY

ARMADALE, VIC

- Redevelopment of an existing building, purchased in June 2014 and completed in August 2015
- Armadale is a premium inner eastern suburb of Melbourne, with high barriers to entry and an undersupply of quality child care
- Subject to planning controls, the site is suitable for medium density residential development and could accommodate up to 15 units
- Practical completion was achieved in August 2015. The centre is already trading at a high occupancy level

KEY STATISTICS

Operator	Only About Children
Number of Long Day Care Places	90
Land Area (sqm)	1,538
Rent (\$) (p.a.)	450,000
Lease Term (years)	20
Options (years)	2 x 10
Annual Reviews (%)	3.25
Approximate Value (\$m)	6.0
Yield on Cost (%)	7.5
Population Growth Forecast 2015 to 2036 (%)	11.0



ACQUISITION CASE STUDY

EPPING, VIC

- FET is also targeting high growth outer metropolitan areas, such as Epping in Melbourne's north
- FET acquired a development site which is in proximity to the recently relocated Melbourne Markets, the Northern Hospital, Epping Plaza and the entrance to the Hume Highway
- Significant development is evident in the area with high levels of population growth forecast in the coming years. The centre is currently under construction with practical completion expected in September 2015



KEY STATISTICS

Operator	Eclipse Early Education
Anticipated Number of Long Day Care Places	96
Land Area (sqm)	2,344
Rent (\$) (p.a.)	179,232
Lease Term (years)	15
Options (years)	2 x 5
Annual Reviews (%)	CPI
Anticipated On Completion Value/Yield (\$m)	2.56 / 7.0
Forecast Yield on Cost (%)	8.4
Population Growth Forecast 2015 to 2036 (%)	28.0



Source: www.street-directory.com.au

PORTFOLIO ACQUISITION – FST MERGER

- In January 2015, FET acquired the Folkestone Social Infrastructure Fund (“FST”) which owned 47 early learning properties, one medical centre and a 15 per cent holding in Folkestone CIB Fund (“FCIB”), which owns a portfolio of police stations and courthouses
- The merger of FET and FST provided the following benefits:
 - increased FET’s portfolio of early learning properties by 47 or 13%
 - resulted in an NTA uplift of \$17.1 million or \$0.07 per unit
 - increased FET’s market capitalisation and is expected to enhance FET’s liquidity
 - provided a transaction with a reduced cost base through lower stamp duty rates applicable to mergers as compared to an outright purchase on market
 - was achieved without additional capital from FET’s investors or financiers
- The transaction is consistent with FET’s strategy of acquiring portfolios and individual assets that add to earnings, portfolio quality and both tenant and geographic diversification
- To 30 June 2015, an FST unitholder will have received a 26.7% capital return¹ as a result of the merger

¹ Based on closing price of FST of \$2.72 per unit prior to the announcement

EARLY LEARNING MARKET



Almost 200 families already on the waiting list for new childcare centre in Macquarie Park

The Sydney Morning Herald
BusinessDay

NEWSLOCAL

“Families need the government to improve childcare affordability now, not in two years’ time”

Demand for inner city childcare is growing
‘Pick up a childcare enrolment form with your pregnancy testing kit’

news.com.au



THE AUSTRALIAN

Sydney childcare vacancies: City parents face huge waiting lists while west struggles to fill places

Why can't we open more child care centres?

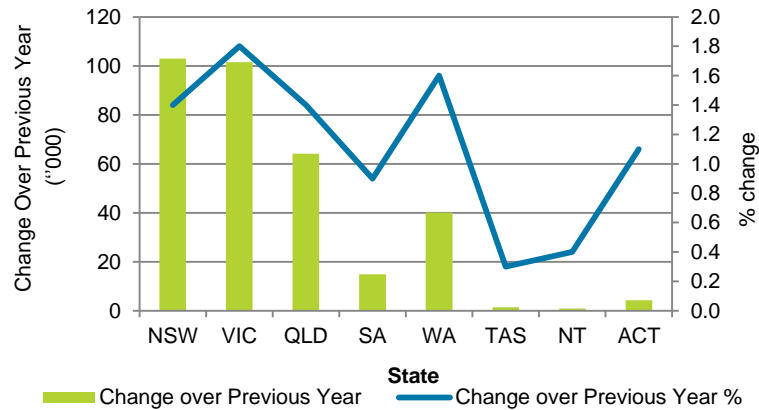
CHILD care has been a huge topic of debate this week with the Abbott Government unveiling its plans to help parents get back to work.

But while its child care package promises to streamline payments for parents and will inject an extra \$3.5 billion into the system over five years, will it actually see more child care centres open to meet demand?



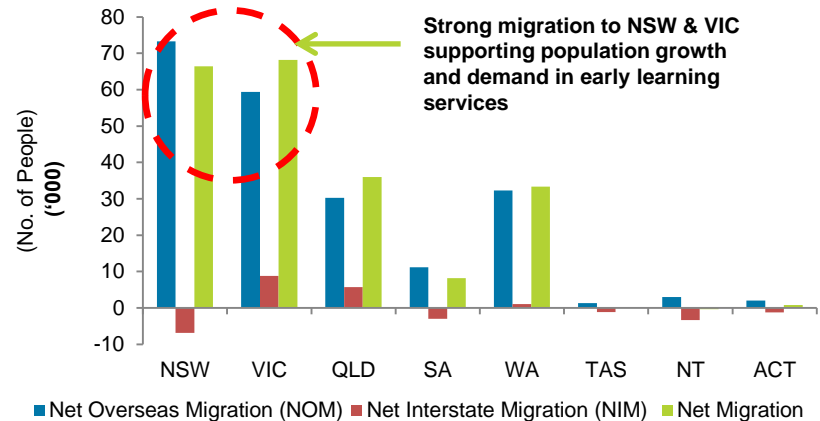
POPULATION GROWTH

STRONG POPULATION GROWTH: CY14



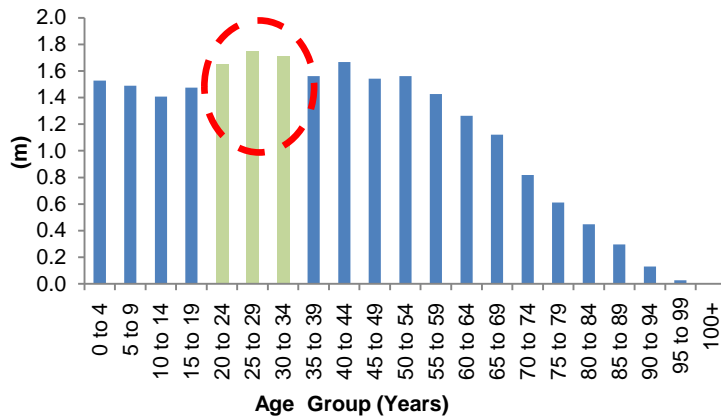
Source: ABS

MIGRATION LEVELS: 2013-2014



Source: ABS

PROPORTION OF POPULATION BY AGE COHORTS: 2014

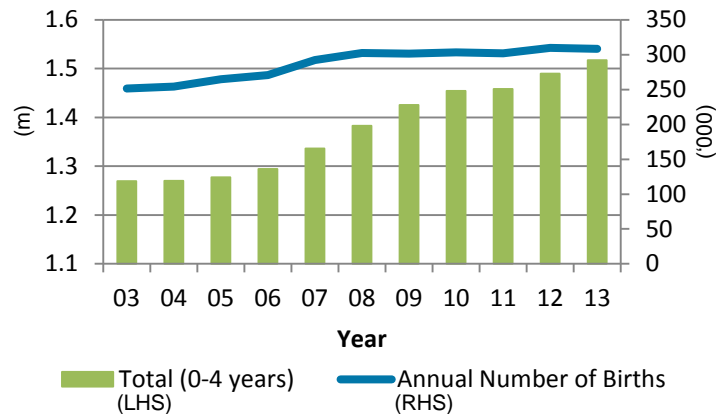


Source: ABS

- Victoria, NSW and then Queensland are expected to be the three states with sustained population growth through to 2031
- Australia has an average population increase of over 1.4% p.a., placing it at close to the top of OECD on a percentage basis
- VIC, NSW, QLD and WA to be most influenced by net migration inflows
- Average age of mothers in Australia is 30 years and is steadily increasing.
- High proportion of the population currently aged 20 to 34 years – is expected to have a positive impact on birth rates and demand for childcare

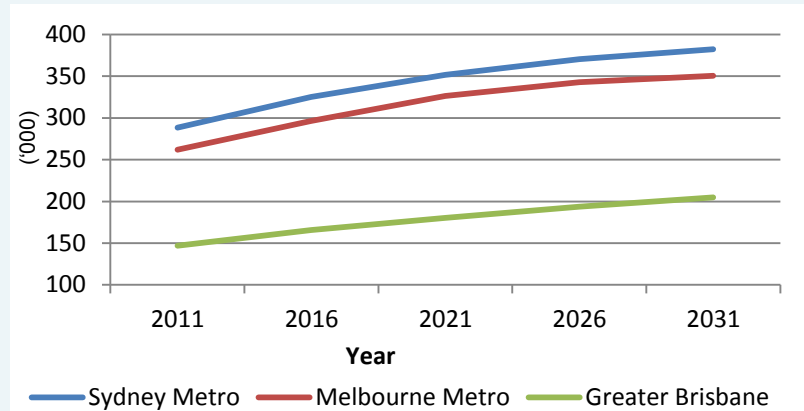
POPULATION GROWTH

POPULATION AGED 0-4 YEARS & NUMBER OF BIRTHS: 2003 - 2013



Source: ABS

FORECAST POPULATION GROWTH 0-4 YEARS: 2011 - 2031



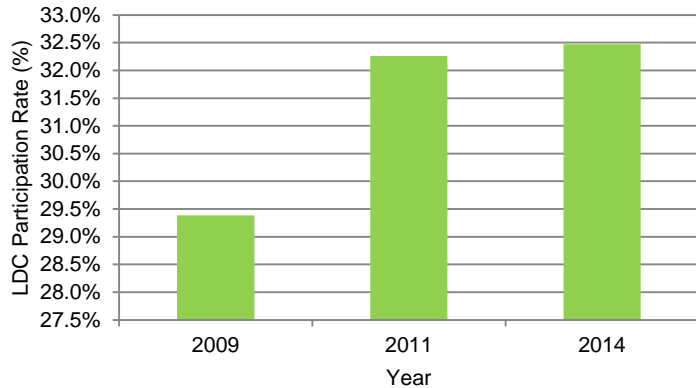
Source: MacroPlan Dimasi

- Substantial growth in birth rates in Australia since 2003
- 17% increase in the number of children aged 0-4 over the past 10 years
- Significant population growth forecast (34.4%) for 0-4 years age cohort across Sydney, Melbourne and Brisbane metropolitan areas over the next 20 years
- Strong correlation with continued and growing demand for early learning centres, particularly if participation rates for long day care centres continue to increase



LONG DAY CARE PARTICIPATION

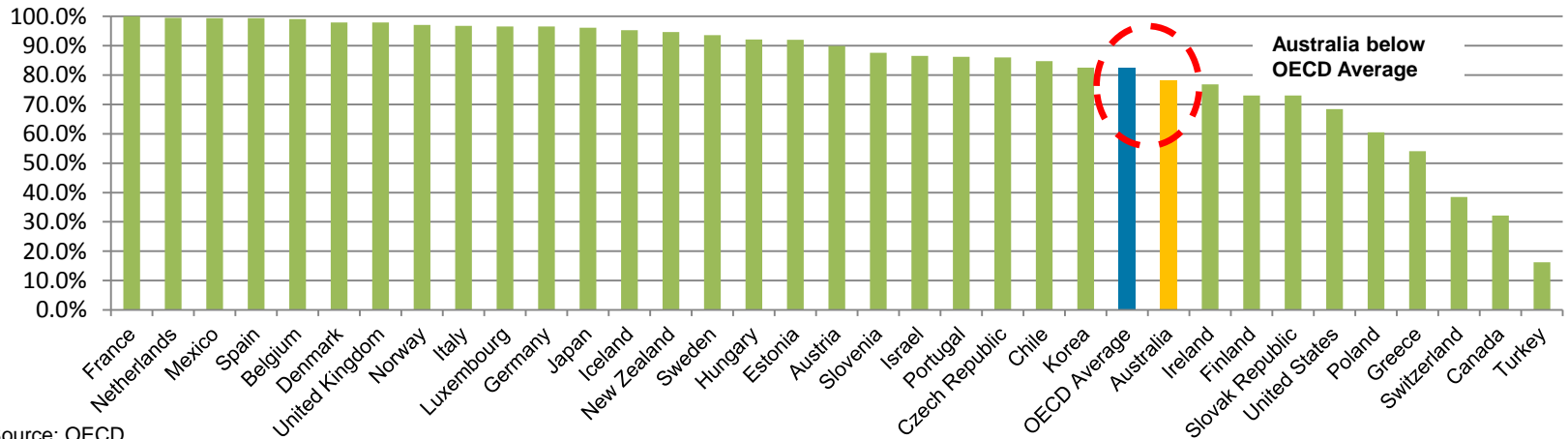
LONG DAY CARE PARTICIPATION RATES: 2009-2014



Source: MacroPlan Dimasi

- Long day care participation rates have increased by 10.5% over the past 5 years
- Overall participation rates in Australia remain below OECD averages, with room to increase (formal care and pre-school for children aged 0-4 years)
- The recently announced Government funding program is designed to reduce the cost of childcare and increase the female workforce participation rate, both of which are expected to have a positive impact on demand

ENROLMENT RATES ALL FORMS OF CHILDCARE - OECD



Source: OECD

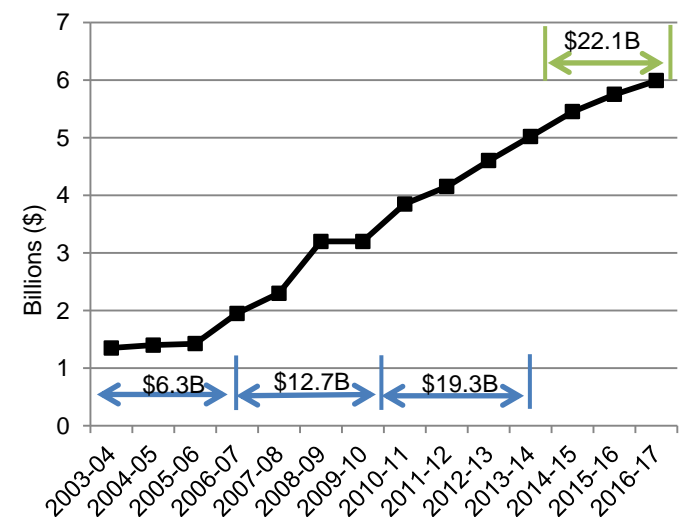
GOVERNMENT FUNDING CHANGES

- Effective from 1 July 2017, an enhanced childcare funding regime will be implemented, with the existing system to remain largely unaltered until that time. The package is part of the 2015 budget measures
- Increased funding of \$3.5 billion to be committed by the Government to the childcare industry over the next 4 years, with the majority of the funding increase to be available from July 2017
- A simplified and new single means-tested Childcare subsidy, to be paid directly to the operators, will replace the existing Childcare Benefit, Rebate and Jobs and other childcare assistance programs
- The new system will see an increase in funding particularly for lower income families earning up to \$65,000 who will receive funding support for 85 per cent of the childcare cost per child, or a designated benchmark price, whichever is lower. That will reduce to 50 per cent for families with incomes of \$170,000 and above
- Benchmark pricing in 2017 dollar terms to be \$127 per day, recognising fee growth of approximately 17.5% to 2014 fee levels over the next three years. Indexation past 2017 to be reintroduced. The rate is substantially higher than that recommended by the Productivity Commission in 2014
- Removal of the existing subsidy cap of \$7,500 per child per annum for the majority of parents. The existing funding cap provided by the existing childcare rebate will be removed for all families with an income below \$185,000, thereby allowing for increased quantum of the financial assistance beyond the existing cap, determined by usage. For those who earn beyond \$185,000, a cap will remain however it has been increased to \$10,000 per child per annum, thereby largely maintaining any existing entitlement

WHAT DOES THIS MEAN FOR CHILDCARE?

The package will provide FET's operators with the potential to increase occupancy levels through increased demand created by greater accessibility and by limiting pressure on fees for the vast majority of parents.

GOVERNMENT FUNDING INCREASING: 2003-04 TO 2016-17



Source: MyChild

OUTLOOK



Asset Management

- Active lease management of market reviews and option take-ups
- Market rental reviews have to date provided solid rent uplift and should continue in FY16
- Remaining portfolio subject to rent increases through predominantly CPI based annual indexation

Portfolio Management

- Further acquisitions to enhance the portfolio and provide a catalyst for income and capital growth. FET's pipeline is advanced and building
- Further yield compression expected, particularly in Queensland. Continued low interest rates are expected to add further impetus to the small investor market for childcare centres and FET can sell non-core centres into a strong investor market
- Development pipeline expected to enhance earnings, long run rental growth and underlying land values through deliberate asset selection

Capital Management

- Debt costs to remain low and will support interest cost savings given 34% of debt is unhedged
- Continue to actively manage debt duration, hedging profile and costs

Distribution Estimate

- FY16 estimated distribution of 13.4 cpu, up 4.7% on FY15

APPENDIX



FET: KEY STATISTICS

	FY13	1H14	FY14	1H15	FY15
NTA (\$)	1.33	1.40	1.50	1.69	1.82
NTA GROWTH (ANNUALISED) (%)	13.4	10.6	14.2	27.6	15.3
WEIGHTED AVERAGE CAPITALISATION RATE (%)	9.3	9.2	9.0	8.3	8.0
WEIGHTED AVERAGE LEASE EXPIRY (YEARS)	8.2	8.3	8.0	8.4	7.9
% OF LEASE INCOME EXPIRING IN NEXT 5 YRS	1.7	3.2	3.4	5.1	5.6
LIKE-FOR-LIKE RENTAL GROWTH (%)	2.7	2.3	2.6	2.5	2.4
MAJOR CUSTOMER % OF INCOME (GOODSTART) (%)	64	60	59	58	63
GEOGRAPHIC SPREAD (% RENTAL INCOME)					
• NSW	26.7	26.4	27.8	27.7	24.6
• QLD	28.1	30.9	30.6	30.6	37.5
• VIC	22.1	21.0	19.9	18.5	16.9
• WA	3.2	2.9	2.8	3.3	3.7
• SA	6.6	6.4	6.5	6.8	6.0
• ACT	1.3	1.1	1.1	1.9	1.7
MARKET RENT REVIEWS					
COMPLETED NUMBER	6	3	8	0	54
WEIGHTED AVERAGE RENTAL GROWTH (%)	5.1	5.8	6.1	N/A	4.3
CAPITAL MANAGEMENT					
GEARING (%)	34.1	30.8	31.7	30.2	29.5
WEIGHTED AVERAGE COST OF DEBT (%)	6.2	6.1	5.6	5.1	4.7
WEIGHTED AVERAGE DEBT MATURITY (YEARS)	2.6	2.1	2.9	2.4	1.9
INTEREST COVER RATIO (X)	3.4	4.1	4.6	4.2	4.6

Source: Company Data

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