360 Capital Group

ASX Release

26 August 2015

360 Capital Group (TGP)
FY15 Financial Results
Record Profit Growth driven by Capital Recycling
FY16 Operating Earnings Guidance of 6.8 – 7.0 cps, up 9% on FY15

360 Capital Group (ASX code: TGP) (Group or 360 Capital) is pleased to announce its financial results for the year ending 30 June 2015.

The Group delivered a statutory net profit of $24.1 million for the year, representing a 4.8% increase compared to the prior year of $23.0 million. Group Operating Earnings (excluding active earnings) were $14.6 million for the year, an increase of 19.7% on FY14.

In line with its stated intentions, over the period the 360 Capital management team continued its strategy of recycling capital from direct assets into higher earnings-multiple co-investments in 360 Capital-managed funds and other opportunities that arose over the period.

The Group's investment philosophy is now focused on two key business areas:

- Funds management
- Co-investment in managed funds

The Group is focussed on being a pure fund manager with co-investments in the funds it manages.

Group key achievements over the past year:

- Accelerated Group strategy of becoming pure fund manager and co-investor by
  - opportunistically exchanging contracts to sell Hurstville for $47.0 million (22.0% premium to book) and
  - settling disposal of the Goulburn asset for $4.3 million.
- Recycled $22.5 million in non-performing investments into higher forecast ROE activities
  - Rationalised unlisted funds to focus on larger funds in platform
- Completed 360 Capital Diversified Property Fund takeover
- Completed $75.0 million, unsecured, five year corporate bond issue
- Acquired strategic $27.1 million holding in Australian Industrial REIT (ASX: ANI) and accepted into 360 Capital Industrial Fund (ASX: TIX) off-market offer ("TIX Offer") for ANI
- Completed IPO for 360 Capital Total Return Fund (ASX:TOT) raising $40.0 million in equity
- Acquired two shopping centres $69.6 million (at $5.7 million below valuation) for the new, unlisted, 360 Capital Retail Fund No.1
- Purchased further 3% of 360 Capital Office Fund (ASX: TOF) at substantial discount to NTA per unit
- Crystallised $4.1 million in unlisted trust exit fees
- Launched 360 Capital AREIT Fund and property securities business

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FY15 financial results highlights

The key financial highlights for the year ended 30 June 2015 include:

- Statutory net profit of $24.1 million up 4.8% on $23.0 million in FY14 (pcp)
- Operating profit of $14.6 million up 19.7% on $12.2 million pcp
- Operating earnings (incl. Active Earnings[1]) of $25.4 million up 31.6% on $19.3 million pcp
- Statutory Basic earnings per Security (EPS) of 10.6cps versus 12.1cps pcp
- Operating diluted EPS of 6.4cps was in line with guidance and the pcp
- Distributions per Security (DPS) of 5.75cps up 15.0% on 5.0cps pcp (payout ratio of 90% of operating earnings)
- Net assets increased 13.8% to $162.3 million from $142.6 million pcp
- 30 June 2015 closing trading price of $1.07 per Security up 36.3% on $0.785 one year prior
- FY15 total return of 42.8% significantly outperformed S&P/ASX300 AREIT Accumulation Index which returned 20.2% and ASX Small Cap Industrials which returned 7.0%
- Group's market capitalisation increased to $266.1 million from $195.2 million a year prior

1. Funds Management: $1.2 billion platform of listed and unlisted funds growing Group returns

Over FY15, the Group rationalised the number of funds and trusts in its platform simplifying the Group's corporate structure whereby all co-investment in the Group are now held directly.

The Group has now completed the rationalisation of funds in the platform and has provided all unitholders within the platform with the opportunity to exit their investment either through:

- ASX listing (360 Capital Office Fund (ASX: TOF) and 360 Capital Industrial Fund (ASX: TIX),
- winding up (Canberra Trust, various development funds, etc.) or
- providing liquidity facilities (360 Capital Diversified Property Fund (Diversified Fund), 360 Capital 111 St Georges Terrace Property Trust (111 St Georges Terrace Trust) and 360 Capital Subiaco Square Shopping Centre Property Trust (Subiaco Trust).

For the year to 30 June 2015, the Group increased funds under management (FUM) from $0.9 billion to $1.2 billion, driven by FUM growth within the listed funds.

Funds Management: Listed Funds

The Group manages three ASX listed Funds with FUM at 30 June 2015 across these three funds of $903.5 million up 44.6% from $624.8 million a year ago. Key FY15 achievements were:

360 Capital Industrial Fund (ASX:TIX)

- $141.2 million equity raised
- Increased gross assets from $366.0 million to $623.0 million
- Continued growth: EPU up 10.7% pcp to 22.8cpu and DPU up 12.9% pcp to 21.0cpu
- Announced takeover proposal for the $320.0 million ANI
    - $68.8 million investment in ANI with over 32.0% of acceptances of the TIX Offer

[1] capital deployed into repositioning and trading opportunities

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- Strategy to create circa $900.0 million pure rent collecting AREIT with significantly improved market position, scale, diversification and liquidity with reduced costs

- TIX remains well supported by investors and is in a strong position to continue to grow its EPU and DPU through acquisitions in the above $10.0 million range.

<u>360 Capital Office Fund (ASX:TOF)</u>

- Opportunistic disposal of 26 year old Burwood property for $80.0 million, $15.0 million in excess of book value
    - proceeds used to retire the majority of borrowings and acquire two year old property in Richmond, Victoria
- Mandate to invest in A-grade suburban assets and B-grade CBD assets, a market characterised by depth and few competitors
    - Purchased 576 Swan St, Richmond, Victoria for $46.5 million
    - Strategy of growing gross assets of $220.0 million while growing EPU and DPU.
- Bought back $9.1 million (5.7% of units; 15% limit)

<u>360 Capital Total Return Fund (ASX:TOT)</u>

- Listed on ASX in April 2015 following successful IPO and $40.0 million in equity raising
- Unique real estate-based opportunity fund
    - Group entitled to ongoing base management fees of 0.65% of gross assets, acquisition and disposal fees and performance fee of 20.0% above a 12.0% total return.

Funds Management: Unlisted Funds

Within its unlisted funds division the Group has focused on maximising portfolio value and returns for unitholders as well as rationalising non-core funds. The Group manages six unlisted Funds with total FUM at 30 June 2015 of $301.0 million compared to $319.5 million a year ago following significant rationalisation and capital recycling.

Key FY15 achievements were:

<u>360 Capital Retail Fund No.1</u>

- New $75.3 million unlisted fund launched March 2015
    - Attractive defensive characteristics: two shopping centres with 50% of revenue from and Coles, Target and Woolworths; 8.00% distribution yield year one; 50-60% tax deferred; $0.96 NTA per Unit vs. $1.00 issue price; 98.0% occupied; FY16 ASX listing proposal.
    - Group purchased the assets $5.7 million below valuation and renegotiated new 10 year lease with Target

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- Group received acquisition fee of $1.7 million, an underwriting fee of $1.3 million, ongoing management fees of approximately $0.4 million p.a. and disposal and potential performance fees upon sale of the properties after seven years.

360 Capital 111 St Georges Terrace Property Trust

- December 2014: Unitholders approved Trust extension to 2022 and crystallisation of $3.4 million exit fee as units taking Group co-investment to 44.4%

360 Capital Subiaco Square Shopping Centre Property Trust

- October 2014: Unitholders approved Trust extension to 2020 and crystallisation of $0.7 million exit fee as units taking Group co-investment to 39.8%

360 Capital Diversified Property Fund

- September 2014: Unitholders approved Group offer (scheme of arrangement) to purchase units it did not already own at $0.25 per unit for total consideration of $21.2 million.
    - Unitholders received long sort after liquidity
    - Diversified Fund is now a wholly owned subsidiary of the Group.

360 Capital Canberra Trust

- August 2014: Unitholders approved windup of Trust following 360 Capital's recommendation to sell the property on the back of leasing success
- June 2015: full liquidity provided with payment of final distribution

360 Capital AREIT Fund

- July 2014: launched property securities fund managed by Damian Diamantopoulos (ex-APN)
- Outperformed the S&P/ASX300 AREIT Accumulation Index from inception to 30 June 2015 generating a total return of 17.9% to date compared to 14.8% from the Index.
- AREIT Fund has obtained independent research & is included on Macquarie wrap platform

Funds Management: Financial Results

Over FY15 the Group's funds management division generated recurring revenue of $6.3 million, up 40.7% from $4.5 million a year ago. Including non-recurring revenue, total revenue for the division was $7.2 million up 35.9% on $5.3 million in FY14. Operating earnings before interest and tax (EBIT) of the division for the year was $2.7 million up 237.5% on the prior year EBIT of $0.8 million.

The Group crystallised $4.1 million in accrued exit fees during FY15, and has $1.1 million in accrued exit fees remaining in the four core unlisted funds.

2. Co-investments in 360 Capital funds

As mentioned, FY15 saw continued rationalisation of the number of funds and trusts in the Group's platform which simplified the Group's corporate structure with all co-investments in the Group now held directly by the Group.

A $16.5 million stake in Centuria managed funds was providing suboptimal income returns to the Group. At the Group's instigation, a successful wind up strategy during the period returned the majority of unitholders' capital with a residual of $0.4 million to be returned in FY16.

The Group's provision of liquidity to unitholders in the Diversified Fund through the acquisition of units it didn't already own resulted in the Diversified Fund becoming a wholly owned subsidiary of the Group, significantly boosting the Group's co-investments.

At 30 June 2015, the Group had total co-investments investments in its managed funds of $194.1 million, up 93.5% from $100.3 million at 30 June 2014.

The Group has $113.0 million of core co-investments in ASX listed entities comprising:

- $63.9 million or a 17.4% investment in TIX
- $44.5 million or a 28.8% investment in TOF
- $4.7 million or a 10.1% investment in TOT

The Group has total co-investments of $81.1 million in unlisted funds, up 30.2% from $62.3 million a year ago driven by the consolidation of the Diversified Fund and the creation of Retail Fund No.1.

These co-investments are considered shorter term investments, many of which could provide recyclable capital for the Group as follows:

- $47.1 million invested in 360 Capital managed unlisted funds, approximately two thirds of which is the Group's 44.4% interest in 111 St Georges Terrace Trust. 360 Capital is reviewing options to recycle this capital back into the Group over the next 12-18 months.
- $34.0 million invested in the recently formed Retail Fund on a short term basis through an underwriting agreement. The Group expects to sell down most if not all of this raising over the next quarter potentially via an ASX listing proposal.

The Group's co-investment in unlisted funds was boosted during the period after the Group provided liquidity facilities to the 111 St Georges Terrace Trust and Subiaco Trust and converted a total of $4.1 million of exit fees into additional units in these two funds.

Co-investments: Financial Results

Over FY15 the co-investment segment delivered operating EBIT of $12.0 million for the year an increase 79.1% on the prior year result of $6.7 million.

The significant growth was generated from the Group's takeover of the Diversified Fund in September 2014 combined with additional capital invested across the listed and unlisted managed funds.

As a result of this transaction, the Group booked an uplift of $5.5 million recognised directly in retained earnings (meaning it did not go through the profit and loss) and boosting the Group's NTA by 2.2cps. Furthermore, the Group classified as Active Earnings the bargain gain on Subiaco Trust acquisition of $0.3 million.

3. <u>Direct assets: Hurstville Sale to settle 30 September 2015</u>

On 30 October 2014, the Group exchanged unconditional contracts to dispose of its remaining direct asset at 20 Woniora Road, Hurstville, NSW for a gross sale price of $47.0 million, a 22.0% premium to the previous carrying value of the asset of $38.5 million.

Under the contract, the purchaser has leased the entire building from the expiry of the ATO lease in February 2015 until settlement on 30 September 2015, with the sale price to be reduced by any rental payments under the lease.

Direct assets: Financial Results

For the year ended 30 June 2015 operating EBIT from direct asset investments was $6.0 million, down 11.1% on the prior year reflecting the Group's reduced exposure to direct assets following the recent property divestments. The Group also recorded a profit on sale of the Hurstville asset of $4.8 million during the period as a result of the gain on sale (excluding lease payments under the sale contract). This amount has been recorded as Active Earnings.

4. Capital management- recycling capital driving above market EPS growth

In September 2014 the Group issued a total of $75.0 million in unsecured, subordinated, corporate bonds during the period with a fixed rate of 6.9% and a fixed term of five years to help fund the Group's growth.

At 30 June 2015, the Group had drawn $11.0 million of the $25.0 million NAB senior debt facility.

As at 30 June 2015, the Group's balance sheet was geared to 30.8% with a look through gearing position of 53.9%. Under the bond covenants, the Group must maintain a gearing ratio of less than 45% and a look through gearing of less than 55.0%.

Of the Group's $11.7million in cash as at 30 June 2015, $6.5 million is available for investment and the balance for AFSL purposes.

Furthermore, the settlement of Hurstville will provide a further approximately $39.0 million of cash in September 2015, over and above rent and deposits taken from the sale already. These funds will be used to repay the Group's $11.0 million of bank debt thereby reducing the Group's gearing position with $29.0 million to be recycled in co-investments in 360 Capital managed unlisted funds over the next 12-18 months.

In summary, over the next 18 months the Group is expected to have access to cash reserves of more than $100.0 million, providing significant capital to continue to grow the Group and maintain its capital light strategy.

5. Statutory Financial results

The Group's statutory net profit attributable to Securityholders for the financial year ended 30 June 2015 was $24.1 million, equating to 10.6 cps, compared to $23.0 million for the prior year. The Groups statutory income and financial position for the year ended 30 June 2015 include the results of four managed funds including two additional funds consolidated into the Group for financial reporting purposes during the year.

The increase in statutory profit for the year ended 30 June 2015 was driven by a full year profit contribution resulting from acquisition of the 360 Capital Property Group which occurred on 2 October 2013 in the prior year. Distribution revenue increased as a result of acquisitions of co-investments funded by redeployment of Group capital and from corporate bond proceeds. The Group also recognised $19.5 million of other income which was underpinned by $11.4 million of net gains on revaluations of investment properties including and $8.5 million associated with the exchange of contracts for sale of the Group's Hurstville property during the year.

The Group's statutory balance sheet as at 30 June 2015 contained gross assets of $463.2 million reflecting an increase of $134.3million from 30 June 2014. Current assets have increased to $68.1 million reflecting the reclassification of the Group's $47.0 million Hurstville property, to assets held for sale. The Group's financial assets fair valued through the profit and loss increased in total by $28.0 million to $117.4 million which included a $31.7 million increase in the Group's investment in TIX facilitated by the conversion of the Group's units acquired in ANI to TIX units under the TIX Offer. Total borrowings at 30 June 2015 increased to $212.9 million primarily as a result of the Group's $75.0 million unsecured note issuance in September 2014.

Operating and segment results

Operating profit[2] was $14.6 million up 19.7% on the prior year, reflecting the growth in operating activities and full year contribution resulting from the acquisition of 360 Capital Property Group in October 2013 combined with an increase in distribution revenue driven by from significant additional capital invested in listed and unlisted co-investments. Operating EPS was 6.40cps was consistent with the prior year, and in line with the revised guidance provided to the market in February 2015.

In addition to operating earnings, the Group continues to report the "Active Earnings" contribution (representing capital deployed into repositioning and trading opportunities) and also the fair value movements. Both of these contribute to the Group's overall returns and were created by the Group's ability to actively generate earnings from its capital deployed and enhance the value of its investments.

Operating earnings (including Active Earnings) combined to contribute $25.4 million[3] or 10.7 cps, to the overall Group returns, an increase of 31.6% on the prior year earnings of $19.3 million[4]. The two main contributors to Active Earnings for the period were an uplift from the Hurstville investment property contracted for sale during the year of $4.8 million (excluding the deferred rent receivable component) and the value uplift of $5.5 million from the acquisition of the minority interest in the Diversified Fund (recognised directly in equity).

In addition to Active Earnings fair value movements of $4.8 million include net gains on revaluation of the Group's investments in managed funds of $5.3 million offset by $1.6 million fair value loss on financial instruments.

The Group's total segment assets increased by $90.5 million to $264.4 million primarily driven by co-investment activities including fair value uplifts combined with further acquisitions in managed funds during the year. The Group's net assets increased by $19.7 million further strengthening the Group's net asset backing.

2 Excludes consolidated results relating to four Managed Funds with material non-controlling interests, deemed to be controlled under AASB 10. The consolidated performance of these managed funds, which are operated as managed investment schemes, are considered to be non-core segments and are reviewed separately to that of the performance of the Group's "core" operations. Balances associated with these Funds are only included to the extent of the Group's distributions received, fair value adjustments and equity investment value. Please refer to Note 13 Segment reporting.

3 Operating earnings including active earnings of $25.4 million for the year ended 30 June 2015 represents operating earnings plus value uplift on Hurstville investment property (excluding deferred rent receivable) of $4.8 million, value uplift on Diversified Fund (recorded in equity) of $5.5 million, gain on conversion of ANI units $0.6 million, bargain gain on Subiaco acquisition $0.3 million less employee security based payments net of applicable tax of $0.4 million.

4 Operating earnings including active earnings of $19.3 million for the year ended 30 June 2014 represents operating earnings plus value uplift on Lawson loan mezzanine debt of $4.8 million plus $2.3 million form restructuring the Development Income Fund and gain on acquisition of Retail Fund $0.3 million.

6. Summary and Outlook

In line with stated strategy, the Group is now a pure funds management and co-investor group, with the disposal of the Hurstville investment property due to settle in September 2015 and be recycled into higher ROE co-investments.

The Group will continue to maintain its "capital light" strategy, opting to grow earnings and distributions per security in excess of its peers from a tight capital base.

The Group now has sustainable and very visible earnings from its funds management division (through recurring management fees and other associated fees) and through its co-investments (from its income distributions) following the maturation of its business model.

Without taking into account any *future* growth in FUM, the growth in FUM during FY15 is forecast to provide $7.7 million in recurring management fee revenue for FY16, a 21.3% increase on FY15.

Similarly, the growth during FY15 in the Group's co-investments in TIX, TOF, the Diversified Fund and other organic fund distribution growth is forecast to provide $15.5 million in distribution income for FY16, an 8.0% increase on the $12.0 million received in FY15.

For the co-investment division, the Group's medium term aim is to exit unlisted co-investments by recycling capital into higher ROE activities is also expected to drive growth in distribution income above the base level outlined above.

Continuation of the Group's capital recycling strategy in FY16 is expected to provide additional "Active Earnings". Up to $100.0 million of capital recycling is currently underway and, together with potential FUM growth in the Group's listed funds, there is the potential for an additional $9.1 million (or 3.0cps) of operating earnings (including Active Earnings) from the funds management and co-investment divisions depending on market conditions.

These additional "Active Earnings" relate to potential upside from identified opportunities, and depend on market conditions and the Group's ability to organically grow existing funds and continue to recycle capital into higher ROE investments as well as continued appreciation in the value of existing assets.

The Group's key focuses for FY16 are:

- Remain focused on maximising portfolio value within the managed funds to maximise investor returns
- Finalise takeover of Australian Industrial REIT (ASX: ANI) by 360 Capital Industrial Fund
- Complete the $43.0 million 360 Capital Retail Fund No.1 capital raising
- Make new acquisitions in line with 360 Capital Total Return Fund investment strategy
- Continue purchasing modern well leased office assets for TOF
    - Target inclusion in the S&P/ASX300 AREIT Index over next 12 months
- Continue to grow TIX on an accretive basis
    - Target S&P/ASX200 AREIT inclusion over next 1 – 2 years
- Grow 360 Capital AREIT Fund & secure other property securities mandates
- Look at a strategy to transition part or all of the Group's unlisted co-investments off balance sheet to enable a recycling of capital for the Group's continued growth
- Continue to recycle capital into higher ROE activities to drive Group EPS

- Be prepared for opportunities which may arise, be mindful of where we are in the cycle and continuing to focus on our business plan

FY16 Operating EPS and DPS Forecasts

In view of the factors outlined above, the Group is pleased to provide FY16 Operating Earnings (excluding Active Earnings) guidance of 6.8 – 7.0 cps, up 9% from 6.4cps in FY15 based on the assumptions outlined above.

Reflecting the Group's strong position, the Board has elected to provide FY16 distribution per Security guidance of 6.25cps, up 8.7% from 5.75cps in FY15.

A TGP investor/analyst briefing teleconference call will be held on 26 August 2015 at 3:00pm Sydney time. To view the webcast of this teleconference on the day, please visit www.360capital.com.au and follow the links to register.

More information on the Group can be found on the ASX's website at www.asx.com.au using the Group's ASX code "TGP", on the Group's website www.360capital.com.au, by calling the 360 Capital investor enquiry line on 1800 182 257 or emailing investor.relations@360capital.com.au

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About 360 Capital Group (ASX code TGP)

360 Capital Group is an ASX-listed, property investment and funds management group concentrating on strategic investment and active investment management of property assets. The company actively invests in direct property assets, property securities and various corporate real estate acquisitions within Australian real estate markets on a private equity basis. 360 Capital Group's 21 full time staff have significant property, funds and investment management experience. 360 Capital Group manages nine investment vehicles holding assets valued at over $1.2 billion on behalf of over 10,500 investors and has over $193.4 million worth of co-investments across the 360 Capital Group.