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## MARKET RELEASE

## ASX ANNOUNCEMENT 23 February 2016

### Mill Hill Capital proposal

Aspen Group (ASX: APZ) advises securityholders that it has received an unsolicited proposal from Mill Hill Capital (MHC Proposal).

The MHC Proposal is that Aspen Group would:

- acquire Edward Baillie Capital Hotel & Leisure Fund's (EBCHLF) hotel / motel portfolio and operations for an indicative total consideration of \$31.35 million;
- appoint Mr John Carter and Mr David Dixon as Joint Chief Executive Officers of Aspen Group and additionally appoint Mr Dixon to the board of Aspen Group; and
- undertake an off-market buyback at a price of \$1.20 per Aspen Group security of up to 25% of Aspen Group issued capital<sup>1</sup>.

The EBCHLF portfolio consists of four, 100% owned and managed, freehold hotel / motel properties located in Tasmania (three) and New South Wales (one). The properties offer a diversified mix of accommodation food and beverage, and gaming revenue. The weighted average capitalisation rate of the portfolio is 12.9%, with a passing net income yield of 11.4%. The MHC Proposal is expected to be accretive to both earnings and distributions.

Mr Carter is a director of Mill Hill Capital, EBCHLF and Aspen Group as well as a substantial securityholder of Aspen Group, and so formal conflict protocols have been adopted to deal with Aspen's consideration of the MHC Proposal. An Independent Board Committee (IBC), comprising the Directors of Aspen Group excluding Mr Carter, has been established and will have sole responsibility for the review and negotiation of the MHC Proposal by Aspen Group.

Aspen Group has negotiated a six week period to undertake due diligence. EBCHLF is subject to exclusivity arrangements during this period.

The MHC Proposal is conditional on, amongst other things, satisfactory completion of due diligence, independent valuations supporting the purchase price, an Independent Expert concluding that the MHC Proposal is fair and reasonable and in the best interests of Aspen Group securityholders and EBCHLF securityholders and on arm's length terms, and formal legally binding agreements. The MHC Proposal is also conditional on EBCHLF securityholder approval.

The Independent Board Committee considers that the MHC Proposal has considerable merit to continue to progress with the proposal. If the results of due diligence and the Independent Expert supports the Proposal, the IBC will seek approval from Aspen Group securityholders at a meeting at which Mr Carter and his associates are unable to vote.

The Independent Board Committee has retained UBS AG, Australia Branch as its financial adviser and King & Wood Mallesons as its legal adviser on the MHC Proposal.

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<sup>1</sup> Buyback of up to 25% inclusive of any securities acquired by way of the on-market buyback announced separately today

Aspen Group will continue to keep the market informed as appropriate.

Further details on the MHC Proposal are provided in the Mill Hill Capital presentation accompanying this release. Mr Carter will be making a presentation of the MHC Proposal at the Aspen Group Market Briefing.

**Market Briefing**

Aspen Group will be providing a market briefing at 10:00am (AEDT) today, 23 February 2016.

The market briefing will be webcast via:

<http://webcasting.brrmedia.com/broadcast/56a827cf2ac671c40a8c7a12>

Dial in details within Australia are:

Toll Free: 1 800 558 698 or 1 800 809 971

Local: 02 9007 3187

Conference ID: 406620

**End**

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# Mill Hill Capital Proposal



- ❖ Mill Hill Capital has put forward a proposal for Aspen Group to:
  - Appoint John Carter and David Dixon as Joint Chief Executive Officers of Aspen Group and appoint David Dixon to the Boards of Aspen Group
  - Acquire Edward Baillie Capital Hotel & Leisure Fund's (EBCHLF) hotel / motel portfolio for an indicative price of \$31.35 million (the most recent Independent Valuation in May 2014):
    - EBCHLF has requested that Aspen Group offers all cash and a scrip alternative to EBCHLF securityholders at a price to be agreed closer to formalising a transaction
  - Undertake an off-market buyback, at an indicative price of \$1.20 per security of up to 25% of issued capital of Aspen Group
- ❖ The Independent Board Committee considers that the MHC Proposal has considerable merit to continue to progress with the proposal. If the results of due diligence and the Independent Expert supports the Proposal, the IBC will seek approval from Aspen Group securityholders at a meeting
- ❖ Aspen Group and EBCHLF have entered into a Heads of Agreement which grants Aspen Group a 9 week exclusivity period in which to complete due diligence and agree a final transaction with EBCHLF

# NEW EXECUTIVE LEADERSHIP



## ❖ Appointment of new Joint Chief Executive Officers:

### ➤ John Carter:

- Non Executive Director of Aspen Group since February 2015
- Over 30 years experience in the real estate and finance industry
- Established Mill Hill Capital (formerly Edward Baillie Capital) in 2004 and has owned, operated and developed various affordable accommodation properties throughout the period
- Previously held senior executive positions at UBS as Head of Equities and Head of Real Estate Investment Banking

### ➤ David Dixon:

- Currently Managing Director and 50% shareholder in Mill Hill Capital (alongside John Carter)
- Over 25 years experience in the real estate and finance industry holding senior executive positions as Head of Real Estate Investment Banking at Morgan Stanley, Credit Suisse and Deutsche Bank and as an Executive Vice President at Bankers Trust in its Real Estate Funds Management division in the 1990s

## ❖ Aligned securityholders:

- John Carter and David Dixon currently control a relevant interest of 12.3% including a 5.0% beneficial interest in Aspen Group and they intend to acquire additional Aspen Group securities
- Proposed base salaries of new Joint CEO's in-line with current CEO and John Carter's current Director role

# BROADER STRATEGY

- ❖ Remain a vertically integrated owner, operator and developer of affordable accommodation
- ❖ Maximise profitability by targeting specific customer bases with a product and service mix that optimises sales and lease terms:

Customer segment	Examples	Sales / Lease Product	Service provision
Retirement	MHE, DMF	Long term leases with fixed rentals and or value share arrangements	On-site staff, central facilities including food and beverage (F&B), retail, sporting & entertainment facilities
Tourist	Parks, hotels / motels	Short term leases (overnight)	On-site staff, central facilities including F&B, retail, sporting & entertainment facilities
Transient Worker	TWA	Project finance (given residual value issue)	On-site staff, central facilities including F&B, retail, sporting & entertainment facilities
Student	Lodges	Triple net through to seasonal lease	On-site staff, central facilities including F&B, retail, sporting & entertainment facilities
Mainstream	Traditional residential communities and apartments	Sale / medium term lease	None





- ❖ Partnering with operators, developers and capital providers for enhanced access to opportunities, reduce risks, reduce fixed overhead costs and increase profitability

# EBC HOTEL & LEISURE FUND PORTFOLIO



- ❖ A public, unlisted, wholesale fund established in 2005 with over 80 Sophisticated Investors managed by Mill Hill Capital
- ❖ Portfolio of four, 100% freehold hotel / motel properties located in Tasmania (3) and NSW (1) that have been owned, operated and developed by Mill Hill Capital for over 10 years
- ❖ 126 employees (full time, casual and part time)
- ❖ 136 rooms with a weighted average room rate of \$99 and occupancy of 53% in FY15
- ❖ Diversified mix of short term accommodation, food, beverage and entertainment revenue
- ❖ Near term upgrade and expansion opportunities
- ❖ Current Independent Valuation of \$31.35 million for the entire portfolio:
  - Weighted average capitalisation rate of 12.9%
  - FY15 net operating income (NOI) of \$3.56 million equates to 11.4% yield
  - NOI increased 7.8% year to 30 June 2014 and 6.6% year to 30 June 2015
  - Value of \$2,423 per sqm of Gross Floor Area and \$570 per sqm of Land

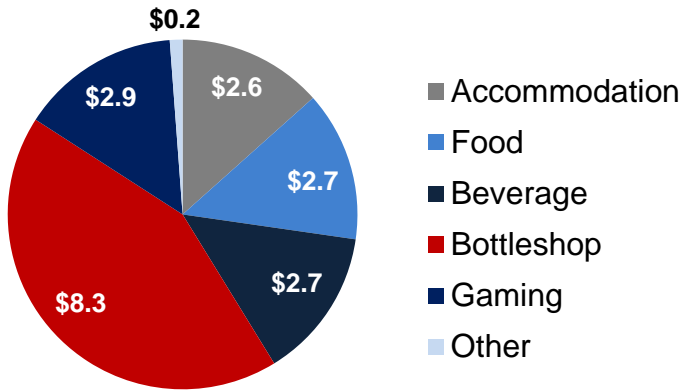
# EBC HOTEL & LEISURE FUND – PROPERTIES

Olde Tudor Hotel	Best Western Foreshore	Bayside Inn	The Ophir
			
<ul style="list-style-type: none"> <li>• Launceston, Tasmania</li> <li>• Booking.com Rating – 8.1</li> <li>• 62 rooms, indoor pool, bistro &amp; bar, gaming, bottle shop</li> <li>• Land area 18,872sqm</li> <li>• Building area 4,858sqm</li> <li>• Opportunities: upgrade motel rooms and function areas to increase rate and occupancy and add more rooms</li> </ul>	<ul style="list-style-type: none"> <li>• Lauderdale, Hobart, Tasmania</li> <li>• Booking.com Rating – 8.7</li> <li>• 16 rooms, bistro &amp; bar, gaming, bottle shop</li> <li>• Land area 21,350sqm</li> <li>• Building area 2,670sqm</li> <li>• Opportunities: add rooms and potentially residential or commercial on excess land</li> </ul>	<ul style="list-style-type: none"> <li>• St Helens, Tasmania</li> <li>• Booking.com Rating – 7.0</li> <li>• 54 rooms, bistro &amp; bar, gaming, bottle shop</li> <li>• Land area 5,615sqm</li> <li>• Building area 3,594sqm</li> <li>• Opportunities: upgrade motel rooms to increase rate and occupancy</li> </ul>	<ul style="list-style-type: none"> <li>• Orange, NSW</li> <li>• Booking.com Rating – 7.6</li> <li>• 4 rooms, bistro &amp; bar, gaming, bottle shop</li> <li>• Land area 9,171sqm</li> <li>• Building area 1,817sqm</li> <li>• Opportunities: add rooms and potentially residential or commercial on excess land</li> </ul>

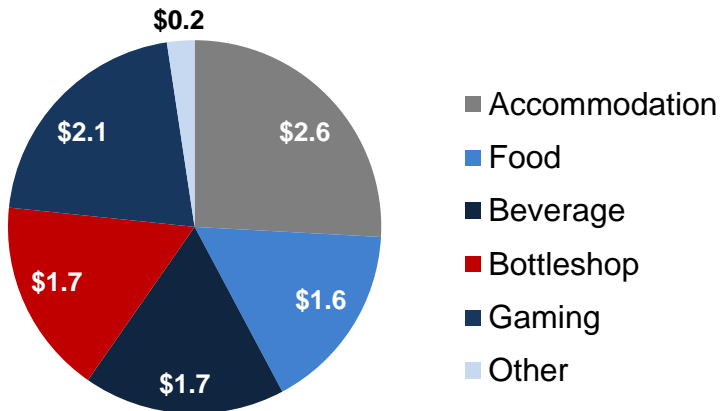


# PORTFOLIO REVENUE AND PROFITS

**FY15 Revenue split (\$19.4m)**

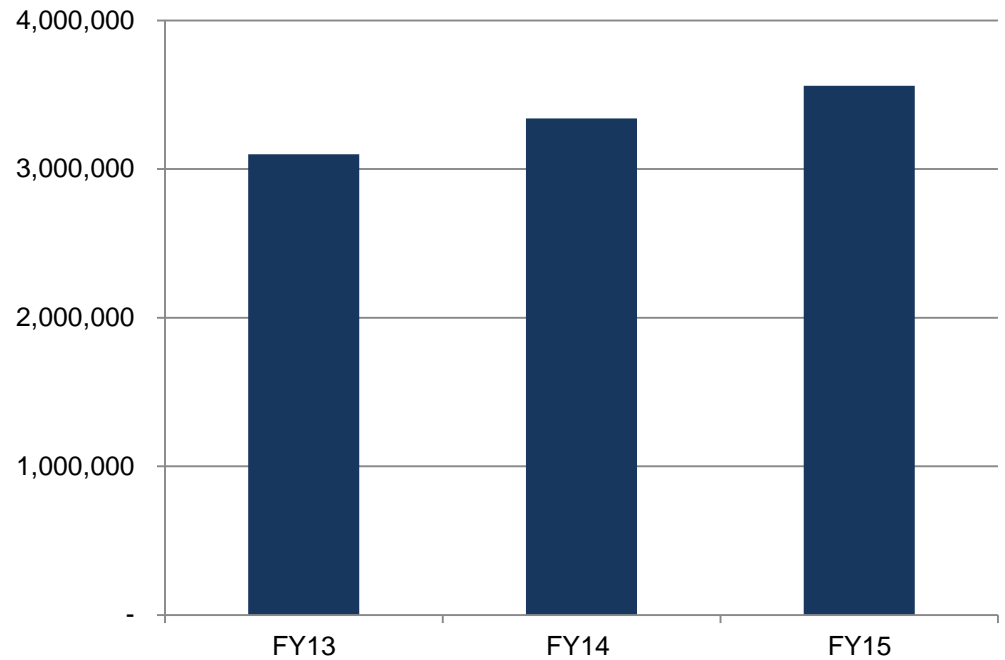


**FY15 Gross Profit\* by Category (\$9.9m)**



\* Gross Profit = Revenue less Cost of Goods Sold

**Portfolio EBITDA – year by year**



# BENEFITS OF HOTELS / MOTELS

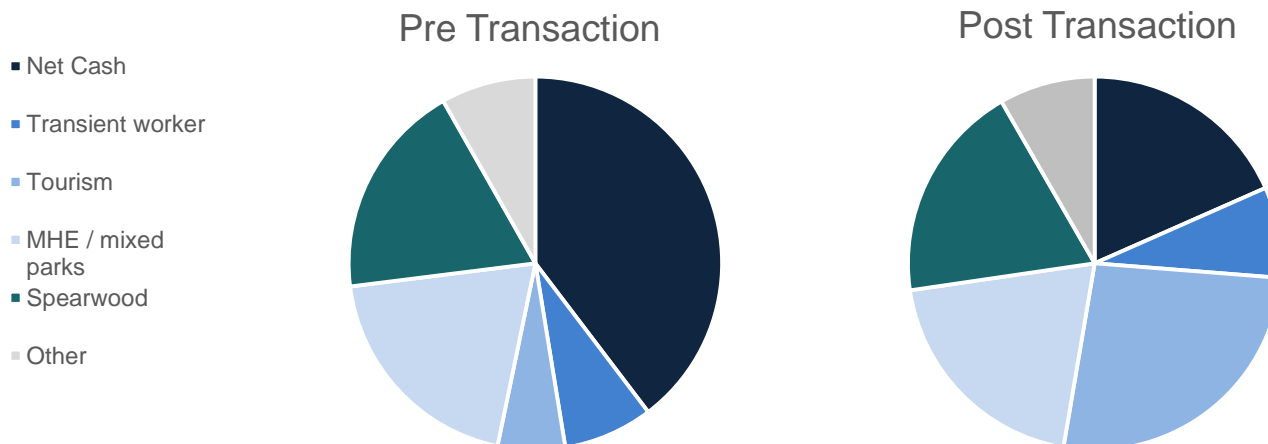
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- ❖ Builds on Aspen's operating platform and expertise in holiday park and TWA
- ❖ Diversity of income generators – accommodation, food, beverage, and entertainment
- ❖ Exposed to some favourable tailwinds compared to other non-tourist forms of accommodation:
  - Inbound tourist numbers have been growing faster than local population for many years
  - Lower A\$ and fuel prices in more recent times have materially improved affordability and relative pricing
- ❖ Capital values often well below cost of building new directly competing supply
- ❖ Relatively high cash yields
- ❖ Potential opportunities to improve ROCE (create value over cost) through:
  - Refurbishment to allow an increase in room rate
  - Adding rooms on surplus land with little or no additional hotel infrastructure required
  - Technology improvements that can materially reduce labour costs

# ASPEN PORTFOLIO – PRE AND POST TRANSACTION



	Pre-transaction		Post transaction	
	\$	%	\$	%
<b>Net Cash</b>	61.3	39.7	28.1	18.4
<b>TWA</b>	12.0	7.8	12.0	7.9
<b>Tourism<sup>1</sup></b>	9.0	5.8	40.4	26.4
<b>Mixed Parks / MHE</b>	30.5	19.8	30.5	20.0
<b>Spearwood</b>	29.0	18.8	29.0	19.0
<b>Other</b>	12.7	8.2	12.7	8.3



1 Adelaide Caravan Park

# PROPOSED OFF-MARKET BUYBACK

- ❖ Offer of an Off-market Buyback of up to 25% of existing securities at an indicative price of \$1.20 per security
  
- ❖ Indicative Buyback Price represents:
  - 6.2% premium to APZ stock closing price of \$1.13 on ASX on 22 February 2016
  - 8.4% discount to current NAV of \$1.31
  
- ❖ Securityholders would be able to elect to sell all or some of their holding, subject to scale back at the buyback limit
  
- ❖ Main purpose is to help refresh the securityholder register at a reasonable backstop price should some securityholders wish to exit but can't given current lack of liquidity on ASX:
  - Happy for there to be no selling into the buyback as we believe that there are ample opportunities to deploy Aspen's balance sheet profitably for remaining securityholders
  
- ❖ John Carter and David Dixon would undertake to not sell into the Off-Market Buyback with respect to their beneficial interests in Aspen Group stock

# BALANCE SHEET– PRE AND POST TRANSACTION

	Aspen Pro Forma Post APPF Sale	Pro Forma Post Addition of EBCHLF Portfolio	Change
Accommodation	\$51.5m	\$84.7m	\$33.2m (up 64%)
Spearwood	\$29.0m	\$29.0m	
Cash	\$61.3m	\$28.1m	(\$33.2m) (down 54%)
Other Assets	\$12.7m	\$12.7m	
<b>Total Assets</b>	<b>\$154.5m</b>	<b>\$154.5m</b>	
Debt	\$0.0m	\$0.0m	
Other Liabilities	\$6.1m	\$6.1m	
<b>Total Liabilities</b>	<b>\$6.1m</b>	<b>\$6.1m</b>	
<b>Net Assets</b>	<b>\$148.4m</b>	<b>\$148.4m</b>	
Securities	113.2m	113.2m	
<b>NAV / Security</b>	<b>\$1.31</b>	<b>\$1.31</b>	

## ❖ Assumptions:

- Acquisition of EBCHLF portfolio for \$31.35m plus \$1.9m (6%) total transaction costs (which are capitalised)
- 100% cash funded

# EARNINGS – PRE AND POST TRANSACTION

	Aspen Pro Forma Post APPF Sale	Pro Forma Post Addition of EBCHLF Portfolio	Change
Accommodation NOI	\$7.2m	\$10.7m	\$3.5m
Spearwood NOI	\$3.2m	\$3.2m	
Net Interest	\$1.3m	\$0.6m	(\$0.7m)
Other Assets	(\$0.1m)	(\$0.1m)	
Overheads	(\$4.4m)	(\$4.4m)	
<b>Cash Earnings</b>	<b>\$7.3m</b>	<b>\$10.0m</b>	<b>\$2.7m</b>
<b>Per Security</b>	<b>6.4c</b>	<b>8.8c</b>	<b>2.4c (up 37%)</b>
Depreciation / SIBC	\$0.2m	\$0.3m	\$0.1m
<b>Distributable Earnings</b>	<b>\$7.1m</b>	<b>\$9.7m</b>	<b>\$2.6m</b>
<b>Per Security</b>	<b>6.2c</b>	<b>8.6c</b>	<b>2.4c (up 37%)</b>

## ❖ Assumptions:

- Acquisition of EBCHLF portfolio for \$31.35m plus \$1.9m (6%) total transaction costs (which are capitalised)
- EBCHLF portfolio generates \$3.5m net operating income and requires \$0.1m capex reserve (SIBC is stay in business capex)
- 100% cash funded
- No change in total overhead costs

# ADVANTAGES OF THE PROPOSAL

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- ❖ Enhanced management team with significant operating expertise in the affordable accommodation space with material investment alongside other Aspen Group security holders
- ❖ Immediate investment in a highly familiar portfolio of hotel / motel properties with a high cash yield and near term refurbishment and expansion opportunities
- ❖ Improved portfolio dynamics:
  - Aspen better utilises its current operating platform and improves its ability to pursue the full range of affordable accommodation opportunities
  - Hotels / motels have some different profit drivers than other forms of affordable accommodation
  - Reduced MER (corporate overheads / property assets)
- ❖ Immediate uplift in cash EPS which supports higher distributions earlier (not reliant on buying back stock)
- ❖ Buyback provides liquidity at a floor price of \$1.20 (indicative) for security holders who wish to exit (subject to total cap of 25% of existing securities on issue)
- ❖ Significant remaining balance sheet capacity to pursue a broad range of opportunities in Australia's largest real estate class – residential accommodation

# CURRENT CONDITIONS OF THE PROPOSAL

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- ❖ The Proposal is conditional on, amongst other things:
  - Completion of due diligence by Aspen Group and EBCHLF
  - New Independent Valuations supporting the transaction price for both Aspen Group and EBCHLF securityholders
  - An Independent Expert concluding that the transaction is fair and reasonable, is in the interests of both Aspen Group and EBCHLF securityholders and is on arms length terms
  - Entering into formal binding agreements
  - Final approval of the Independent Board Committees of both Aspen Group and EBCHLF
  - Approval of the securityholders of both Aspen Group and EBCHLF
  - No superior proposals for Aspen Group or EBCHLF and the Independent Board Committee of Aspen Group and the Board of EBCHLF continuing to consider the transaction is in the interests of their respective securityholders



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