Folkestone

ASX ANNOUNCEMENT
25 AUGUST 2016

FOLKESTONE'S FULL YEAR RESULTS – 30 JUNE 2016

- Normalised net profit after tax[1] of $5.0 million, up 71.2% on FY15
- Normalised earnings per share of 3.4 cps, up 49.3%
- Net asset value (NAV) per share of 98.9, up 13.1%
- Gearing reduced to 4.2%, down from 15.6%
- Funds under management of $1.05 billion, up 14.7%
- All funds outperformed their relevant investment benchmark
- $16.9 million unrealised gain ($11.8 million net of tax) generated from FLK's co-investment in Folkestone Education Trust (ASX: FET)
- Strong sales across active development projects
- Added three new development projects to the pipeline
- Established FLK's Seniors Living platform
- FLK to pay a fully franked dividend of 2.5 cps – the first dividend in 8 years

FINANCIAL RESULTS

Folkestone (ASX:FLK) today announced a normalised net profit after tax for the 12 months ended 30 June 2016 of $5.0 million, an increase of 71.2 per cent over FY15. Statutory net profit after tax was $5.5 million[2], down 22.3 per cent over FY15.

Normalised earnings per share is 3.4 cents compared to 2.3 cents[3] for FY15. Statutory earnings per share is 3.7 cents compared to 5.5 cents[3] for FY15.

Folkestone's Managing Director Mr Greg Paramor said "the solid result for FY16 reflects positive contributions from both our funds management platform and our on-balance sheet development activities. It also reflects our focused and disciplined approach to implementing our strategy in an environment where capital is abundant and competition for assets is driving prices close to cyclical highs in many sectors".

[1] *The normalised figures are non-statutory amounts and in Folkestone's view better reflect the underlying operating performance of the business. Normalised net profit after tax is arrived at after adjusting the Group's statutory NPAT in FY15 relating to a $4.1 million income tax benefit arising from the re-recognition of $13.6m of carried for tax losses previously derecognised in prior reporting periods and in FY16 of $0.8 million in due diligence costs associated with transactions not proceeding and $1.44 million in realised gains from the sale of units in Folkestone Education Trust and units that seeded a new Folkestone Maxim A-REIT Securities Managed Investment Account.*

[2] *The statutory NPAT for the Consolidated Group was $9.0 million. The Consolidated Group includes the Folkestone West Ryde Development Fund ("Fund") even though Folkestone only owned 50 per cent of the units in the Fund. The Consolidated Group's statutory NPAT includes a net profit of $7.2 million from the Fund relating to its share of development profits recognised during the period net of fund administration costs. 50 per cent of the profit from the Fund ($3.6 million) is attributable to the other unitholders in the Fund. Therefore, Folkestone's statutory NPAT is $5.5 million after adjusting for 50 per cent of the Fund's profit.*

[3] *Comparative numbers have been adjusted to reflect the impact of the 1:5 share consolidation completed during the period.*

Reconciliation of Statutory NPAT and Normalised NPAT Attributable to Folkestone

	2015 $m	2016 $m
Statutory NPAT	**7.0**	**5.5**
Adjustments		
Due Diligence Costs on Transactions Not Proceeding	-	0.8
Realised Gain on Investments	-	(1.4)
Tax Impact of the Above	-	0.2
Tax Adjustment Relating to Re-recognition of Carried Forward Tax Losses in FY15	(4.1)	-
Normalised NPAT	**2.9**	**5.0**

Numbers may not add up due to rounding

ASSET BACKING

Folkestone's net asset value (NAV) was 98.9 cents per share at 30 June 2016, up from 87.5 cents per share at 30 June 2015 (restated from 17.5 cents per share to account for the 1:5 share consolidation which was completed during the current reporting period). Net tangible asset (NTA) backing was 93.6 cents per share at 30 June 2016 compared with 77.0 cents per share at 30 June 2015 (restated from 15.4 cents per share to account for the 1:5 share consolidation which was completed during the current reporting period).

BALANCE SHEET

Folkestone's balance sheet is in excellent shape with more than $20.0 million in cash reserves and an undrawn facility of $25.0 million providing the Company with financial flexibility to take advantage of new investment opportunities when they arise. Gearing at 30 June 2016 is 4.2 per cent[4] down from 15.6 per cent 12 months earlier.

FY16 DIVIDEND

Since the recapitalisation of Folkestone in March 2011, the Company has focussed on increasing its recurring income, providing a stable funding source for the payment of the fixed operating costs of the business. Given the growth in our recurring income and our strong balance sheet, Folkestone confirms that it will pay a fully franked dividend of 2.5 cents per share in respect of FY16, the first dividend to be paid to investors in 8 years.

The ex-date for the dividend will be 9 September 2016, the record date will be 12 September 2016 and the payment date will be 27 September 2016.

FUNDS MANAGEMENT DIVISION

Folkestone's funds management division is a specialist real estate funds manager for private clients and select institutional investors. During the reporting period, Folkestone increased its funds under management from $917 million to $1.05 billion, an increase of 14.7 per cent compared to 30 June 2015.

Total funds management revenue was $15.9 million up 51.6 per cent on FY15 driven by:

- a 4.7 per cent increase in recurring fee income and cost recoveries to $6.3 million;
- a 61.5 per cent increase in transaction fees to $2.2 million;
- a 36.0 per cent increase in distributions from FLK's co-investment in the ASX listed Folkestone Education Trust to $4.2 million;
- a $1.6 million performance fee from the West Ryde Development Fund; and

[4] *All debt, with the exception of a $30.0 million facility (drawn to $5.0 million at 30 June 2016) is held at the project level in special purpose vehicles. On a look through basis, the gearing is at 10.5 per cent.*

- a $1.2 million realised profit on the sale of 1.2 million Folkestone Education Trust units.

All Folkestone's listed, unlisted and A-REIT securities funds outperformed their respective investment performance benchmark in FY16.

The largest fund managed by Folkestone, the ASX listed Folkestone Education Trust (FET), with gross assets of approximately $754 million, continued its outperformance in recent years with a total return of 34.8 per cent in FY16 outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 24.6 per cent, and over three years has returned 32.8 per cent per annum compared to the Index of 18.5 per cent per annum. Folkestone owns 12.4 per cent of FET, and generated a $16.9 million unrealised gain ($11.8 million net of tax) from its co-investment in FY16, equivalent to an increase in Folkestone's NAV of 8.0 cps.

The West Ryde Development Fund is another example of Folkestone delivering strong returns to its fund investors and the broader Folkestone group. The Fund completed a 229 residential development project located in West Ryde, Sydney in a 50/50 joint venture with the Toga Group. The Fund's forecast equity internal rate of return (IRR) increased from 18 per cent per annum to 30 per cent per annum and the forecast return on equity increased from 32 per cent to 50 per cent (pre-tax, net of fees). Folkestone co-invested $8.7 million in the Fund and generated a return on equity of 79 per cent including $0.9 million in acquisition and management fees, a $1.6 million performance fee earned in FY16 and a net profit before tax of $4.4 million on its investment in the Fund of which $3.3 million was earned in FY16.

Mr Paramor said "Despite the overall strong performance of the real estate market, we are delighted that all our funds outperformed their relevant benchmark in FY16. This highlights the benefit of Folkestone's quality staff and our pro-active management to generate above benchmark returns for our investors. As a result, we were able to generate a $1.6 million performance fee in relation to the West Ryde Development Fund in FY16 and a number of our other funds have embedded performance fees that, subject to no material deterioration in performance, should deliver additional performance fees in the next three years when their terms expire."

DIRECT INVESTMENTS - DEVELOPMENTS

During FY16, Folkestone continued to execute its strategy for existing on-balance sheet developments and also announced three new investments in joint venture with its existing joint venture partners.

Folkestone's development division generated a net development return[5] of $3.6 million in FY16, down 10.4 per cent on the previous year.

Key highlights in FY16 include:

- a positive contribution in net development profits of $3.9 million in FY16, up 52.0 per cent on FY15 from West Ryde (via Folkestone's 50 per cent interest in the Fund), Truganina (via Folkestone's 18.8 per cent interest in the Fund) and Potters Grove (via Folkestone's 50 per cent interest in the joint venture);
- $1.1 million in preferred equity interest in FY16 up, 2,104 per cent on FY15 from four projects (Officer Northside, South Dural, Hornsby and Wollert), the Truganina Development Fund Loan Notes and other sundry loans;
- expansion of our residential exposure in key structurally undersupplied markets in Sydney's north west at South Dural and Hornsby via capital efficient structures; and
- three new joint ventures with existing partners - ID_Land (Wollert), Wilmac Properties (Nunawading) and Lyon Group (South Dural).

Mr Paramor said "we continue to secure strong pre-sales across our developments. Our

[5] *Net of all project costs incurred during the year and includes development profit, fees, preferred equity income, impairments and rental expenses on operating leases.*

residential land and commercial developments in Melbourne are in the key growth corridors and are performing strongly. Our residential and mixed-use sites in north-west Sydney, once planning approvals have been achieved, will provide strategic development opportunities in Sydney's fastest growing corridor which will benefit from enhanced transport infrastructure associated with the new Sydney Metro North West rail link and NorthConnex road upgrade."

Enterprise Parks - Funds Employed as at 30 June 2016: $4.3m

Folkestone's three Melbourne projects in Millers Junction, Knoxfield and Nunawading are all in 50/50 joint ventures with Wilmac Properties. The total end value of ~$100 million (Folkestone's share $50 million) will provide positive profit contributions over the next three years. During the year we acquired the Nunawading site on deferred terms with settlement due in September 2016. We continue to pursue other sites in Melbourne focussing on key strategic locations to scale the business. Millers Junction and Knoxfield both achieved strong pre-sales and commenced construction in FY16.

Residential Land - Funds Employed as at 30 June 2016: $17.7m

Folkestone's residential land projects (Potters Grove and Potters Northside in Officer, south-west Melbourne and Elements in Truganina, western Melbourne[6]) are all in JV with ID_Land. Both corridors continue to experience favourable trading conditions. During FY16, 386 lots were sold generating gross revenue of $83.0 million across the three projects.

Folkestone's strategy to buy land on flexible, deferred terms and introduce investors through our unlisted funds platform, enhances our capital structure and reduces debt generating capital efficient, staged profit delivery. In December 2015, Folkestone announced that it had entered into a fourth joint venture with ID_Land, to develop a 48 hectare residential master-planned community in Wollert in Melbourne's rapidly growing Northern Growth Corridor. The project is located within the Wollert Precinct Structure Plan (PSP) which is expected to receive Government approval in 2016. The project will deliver circa 500 residential lots, with an end value of approximately $120 million. The land is being acquired on deferred terms with a series of payments between December 2015 and 2019. Following the PSP approval, Folkestone and ID_Land may sell down part of their investment in the project to third party investors, similar to the process completed for the Folkestone Truganina Development Fund.

In September 2015, Folkestone acquired in a 50/50 joint venture with the Lyon Group, development rights over 60 hectares of land which is to be subject to a re-zoning proposal in South Dural NSW. The land is held via freehold on deferred terms and under option agreements and, subject to re-zoning, the project is anticipated to deliver development profit from FY20.

Residential Apartments - Funds Employed as at 30 June 2016: $4.9m

Folkestone's current apartment exposure is via the consolidation of a strategic site in Hornsby, NSW, directly opposite the railway station and Westfield Hornsby. The investment is in a 50/50 joint venture with the Lyon Group and the land is either held in freehold or under option agreements. The site, which now comprises approximately 3,200 square metres following the acquisition of a further site of 348 square metres in FY16, is subject to a re-zoning proposal. Upon approval, subject to market conditions, the joint venture may sell the site or deliver the development as a major apartment/mixed-use complex.

[6] *Folkestone holds a 18.8 per cent interest in the Truganina Development Fund*

Retail/Commercial - Funds Employed at 30 June 2016: $7.8m

During FY16, Folkestone continued master planning of its neighbourhood activity centres at Altona North (Stage 3) and Truganina in Melbourne. In addition, an agreement for lease was secured with a major supermarket operator for Altona North and discussions progressed with a major supermarket operator for Truganina. Development of both neighbourhood activity centres may yield opportunities for Folkestone to place the centres into its unlisted funds platform or manufacture and then sell into the current favourable market conditions.

Hotels- Funds Employed at 30 June 2016: $3.3m

Despite The Ranges Karratha, which Folkestone has a 25 per cent interest, being unfavourably impacted by the downturn in the resources sector resulting in a $1.2 million impairment on its holding in FY16, Folkestone will continue targeting the acquisition and/or development of quality hotels, particularly in the Sydney inner ring, given the strong fundamentals across most hotel markets.

SENIORS LIVING PLATFORM

In November 2015, Folkestone announced the appointment of Stuart Nicolson as CEO of Seniors Living to drive Folkestone's development of a seniors living platform.

In July 2016, Folkestone announced it had exchanged contracts for the acquisition of Watermark Castle Cove, an award winning retirement living community on Sydney's lower north shore, the first asset for its seniors living platform and the Folkestone Seniors Living Fund No.1 (FSLF).

Mr Paramor said "the move into seniors living is a natural extension of our strategy to be a key player in the social infrastructure space and we are in discussions with a number of groups to add to our initial acquisition of Castle Cove".

OUTLOOK

Folkestone is well placed to build upon the growth recorded in FY16 by its funds management and development divisions.

Despite the uncertain economic outlook, the low interest rate environment is supporting both residential and non-residential real estate. With the exception of a few markets where demand is weak – particularly those markets exposed to the mining sector or where supply is elevated – particularly inner Melbourne, South Sydney and inner Brisbane apartment market, the outlook for real estate in FY17 is positive, barring any major global economic or capital market shock.

Mr Paramor said "the challenge in this low interest rate environment is to avoid simply taking greater risk in the search for higher returns. There is a significant amount of both domestic and international capital chasing real estate assets and as we have demonstrated in recent years, we continue to believe it is critical to remain disciplined in deploying Folkestone's and our clients' capital into real estate."

"We are firmly of the view that real estate related social infrastructure (childcare, seniors living and medical/health) will offer attractive investment returns in the coming year. The demographic drivers (workforce participation and population growth for childcare and an ageing population for seniors living and medical/health) and a shortage of quality accommodation in all three sectors will see investors increasingly look at these investments as a legitimate part of a real estate investment portfolio" said Mr Paramor.

"We have been actively building our development pipeline in recent years, and a number of projects are set to gain momentum in FY17. Some of these projects may be sold down to, or joint ventured with, a Folkestone managed fund, thereby ensuring we can realise profits, recycle our balance sheet capital and drive our return on equity" said Mr Paramor.

“We will continue to look for investment opportunities across the residential, non-residential and social infrastructure sectors where the projects offer the potential for attractive risk-adjusted returns, can be acquired and/or developed using efficient capital structures (i.e. staged land payments or deferred settlement terms), and where appropriate, undertaken in joint venture with quality partners” said Mr Paramor.

Folkestone confirms that its current intention is to pay a fully franked dividend of 2.625 cents per share in respect of FY17, an increase of 5.0 per cent on the FY16 dividend assuming no material change in market conditions.

GARRY SLADDEN
Non-Executive Chairman
Ph: 02 8667 2800

GREG PARAMOR AO
Managing Director
Ph: 02 8667 2800

About Folkestone

Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone’s funds management platform, with $1.05 billion under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while its on balance sheet activities focus on value-add and opportunistic (development) real estate investments. www.folkestone.com.au